UNITED STATES
RAILROAD RETIREMENT BOARD

2005 Annual Report

For Fiscal Year Ended September 30, 2004

U.S. Railroad Retirement Board

Mission Statement

The Railroad Retirement Board's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The Railroad Retirement Board also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

In carrying out its mission, the Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The Railroad Retirement Board will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

If you have any comments or suggestions regarding the presentation of information in this publication, please let us know. You can fax us at 312-751-7154, e-mail us at opa@rrb.gov or write us at the following address:
Public Affairs, U.S. Railroad Retirement Board,
844 North Rush Street, Chicago, IL 60611-2092.

Visit the Railroad Retirement Board's Web Site at
www.rrb.gov

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The Report in Brief

Railroad retirement and unemployment insurance benefits totaling almost $9.1 billion were paid by the Railroad Retirement Board to more than 677,000 beneficiaries in fiscal year 2004. Financial reports issued in 2005 on the solvency of the railroad retirement and railroad unemployment insurance systems were both favorable. Total railroad retirement system assets equaled some $26 billion as of September 30, 2004.

Benefits and Beneficiaries

Benefits paid under the Railroad Retirement and Railroad Unemployment Insurance Acts totaled almost $9.1 billion in the fiscal year ending September 30, 2004. Retirement and survivor benefits were paid by the Railroad Retirement Board to about 649,000 beneficiaries during the fiscal year, of whom 604,000 were on the Board's annuity rolls at the end of the year. More than 32,000 railroad employees were paid unemployment and/or sickness insurance benefits. Nearly 4,000 beneficiaries received payments under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act.

Retirement and survivor benefit payments of $9.0 billion during the 2004 fiscal year were $145 million more than payments in the prior year. Employee and spouse annuitants were paid approximately $6.9 billion, accounting for 76 percent of the total payments. Employees received about $4.0 billion in age annuities, $1.8 billion in disability annuities and $64 million in supplemental annuities, while spouses and divorced spouses received about $1.1 billion. Survivors were paid $2.1 billion in annuities and $5 million in lump-sum benefits. The total number of beneficiaries who received retirement and survivor benefits declined by more than 17,000 from fiscal year 2003.

Gross unemployment and sickness benefits paid in fiscal year 2004 totaled $123.3 million. Net benefits totaled nearly $83.0 million after adjustment for recoveries of benefit payments, including injury settlements, some of which were made in prior years. Total gross and net benefit payments decreased by some $8.9 million and $11.4 million, respectively, from the preceding year. Gross unemployment benefits totaling $40.7 million ($37.7 million net) were paid to 11,700 claimants, while gross sickness benefits of $82.7 million ($45.3 million net) were paid to 21,800 claimants.

Financial Reports

The Board's 2005 railroad retirement financial report to Congress, which addressed the period 2005-2029, was generally favorable, concluding that, barring a sudden, unanticipated, large decrease in railroad employment, or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 25 years. This is an improvement over last year's report and reflects continued favorable employment experience in the railroad industry. However, the 2005 report also indicated that the long-term stability of the system is still questionable. Under its current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

The Board's 2005 railroad unemployment insurance financial report was also generally favorable. Even as projected maximum benefit rates increase 39 percent from $56 to $78 from 2004 to 2015, experience-based contribution rates maintain solvency, except for small, short-term cash-flow problems in 2007 and 2008. Projections show quick repayment of the loans even under the most pessimistic assumption. The report also predicted average employer contribution rates well below the maximum throughout the projection period, although there may be a periodic resumption of the surcharge required to maintain a minimum account balance.

No financing changes were recommended by the Board for the railroad retirement or unemployment insurance systems.

The National Railroad Retirement Investment Trust's annual management report for fiscal year 2004 stated that, as of September 30, 2004, the market value of the Trust-managed assets had increased to $25.0 billion, reflecting a 13.3% rate of return. Total railroad retirement system assets, including those maintained at the Treasury, were over $26 billion.

The 2005 railroad retirement and railroad unemployment insurance financial reports and the National Railroad Retirement Investment Trust's 2004 annual management report are available on the Board's Web site at www.rrb.gov.

Service

Customer Service Plan

The Board developed an index to measure the overall timeliness of its customer service in several key benefit areas. During fiscal year 2004, customers received benefit services within the timeframes promised in the Board's Customer Service Plan 98.5 percent of the time.

Expanded Internet Services

Railroad employees now have the option of filing biweekly claims for unemployment benefits over the Internet through the Board's RUIAnet service. A new service scheduled for 2005 will allow employees online access to information about their unemployment and sickness insurance benefits.

Other Developments

Change-Facilitation Project

Exploring options to help the agency overcome anticipated budget constraints during the upcoming fiscal years, the Board's Executive Committee developed recommendations to provide cost savings for the agency and enable the Board to function in an efficient and effective manner well into the future.

Staffing

Facing increasingly tight budgetary resources and related human capital issues, the Board offered voluntary separation incentive payments, or buyouts, and early retirements to eligible employees. During the first quarter of fiscal year 2005, 77 retirement-eligible employees left the agency with buyouts.

Office of Inspector General

During fiscal year 2004, the Office of Inspector General continued its independent oversight of agency operations and its efforts to combat fraud, waste, and abuse. Twelve audit and management information reports issued during the year identified operational weaknesses and recommendations for corrective action to program managers.

Investigative activities resulted in 42 criminal convictions, 32 indictments and informations, 37 civil judgments and nearly $22.3 million in recoveries, restitutions, fines, civil damages and penalties. In August 2004, a significant case involving commercial contract fraud was completed, and under settlement agreements the United Healthcare Insurance Company and the Travelers Insurance Group were ordered to pay $9.7 million and $10.7 million, respectively, to the Centers for Medicare & Medicaid Services. Of the total settlement, over $4.4 million was associated with Railroad Retirement Board contracts with the two companies.

The preceding topics, as well as others, including technology and automation, equal opportunity developments, public information activities and legal rulings, are covered in more detail in other sections of this report.

Selected Data on Benefit Operations

Retirement-Survivor	Fiscal Year 2004	Fiscal Year 2003
Employee age annuities		
Number awarded	7,800	8,300
Number being paid at end of period	204,700	210,400
Average being paid at end of period	$1,619	$1,554
Employee disability annuities		
Number of total disability annuities awarded	1,400	1,300
Number of total occupational disability annuities awarded	3,400	3,600
Number of total disability annuities being paid at end of period	20,000	19,800
Number of occupational disability annuities being paid at end of period	63,300	62,700
Average total disability annuity being paid at end of period	$1,165	$1,112
Average occupational disability annuity being paid at end of period	$1,937	$1,863
Supplemental employee annuities		
Number awarded	5,600	6,100
Number being paid at end of period	126,000	129,200
Average being paid at end of period	[1]$42	$42
Spouse and divorced spouse annuities		
Number awarded, total	8,600	8,700
Number being paid to divorced spouses at end of period	3,500	3,500
Number being paid at end of period, total	142,900	146,700
Average being paid to divorced spouses at end of period	$378	$366
Average being paid at end of period, total	$620	$598
Survivor annuities		
Number awarded to aged widow(er)s	7,300	7,800
Number awarded, total	9,300	9,800
Number being paid to aged widow(er)s at end of period	146,900	153,700
Number being paid at end of period, total	180,000	187,300
Average being paid at end of period to		
Aged widow(er)s	$1,026	$985
Disabled widow(er)s	$865	$831
Widowed mothers (fathers)	$1,337	$1,279
Remarried widow(er)s	$673	$647
Divorced widow(er)s	$674	$649
Children	$766	$744
Lump-sum survivor benefits awarded		
Number of lump-sum death benefits	5,100	5,300
Average lump-sum death benefit	$898	$898
Number of residual payments	100	100
Average residual payment	$2,927	$3,678

Selected Data on Benefit Operations (Continued)

Employees and Earnings[2]	Fiscal Year 2004		Fiscal Year 2003
Average employment	226,000		225,000
Creditable earnings, Railroad Retirement Act (billions):			
Tier I	$13.75		$13.18
Tier II	$12.65		$12.19
Creditable compensation, Railroad Unemployment Insurance Act (billions)	$3.13		$3.09

Unemployment-Sickness	Benefit Year 2003-2004		Benefit Year 2002-2003
Qualified employees	248,800		259,100
Unemployment benefits			
Net amount paid (millions)	$38.3	[3]($37.7)	$45.6
Beneficiaries	11,700	[3](11,700)	15,400
Number of payments	76,400		96,700
Normal benefit accounts exhausted	2,400		2,900
Average payment per 2-week registration period	$477		$449
Sickness benefits			
Net amount paid (millions)	$46.4	[3]($45.3)	$49.9
Beneficiaries	21,600	[3](21,800)	22,400
Number of payments	152,700		160,700
Normal benefit accounts exhausted	4,500		4,700
Average payment per 2-week registration period	$486		$461

[1]Includes 1,200 supplemental annuities, averaging $66, awarded under the 1937 Act.

[2] Except for fiscal year 2003 employment, all figures in this section are preliminary.

[3] Data in parentheses are for the fiscal year (October 1, 2003 - September 30, 2004).

A REVIEW OF OPERATIONS

At the end of fiscal year 2004, total railroad retirement system assets equaled some $26 billion. During fiscal year 2004, benefits totaling $9.1 billion were paid under the Railroad Retirement and Railroad Unemployment Insurance Acts. Retirement and survivor benefits accounted for almost all of this amount. Net unemployment and sickness benefits totaled over $82.6 million.

RAILROAD RETIREMENT AND SURVIVOR PROGRAM

As of September 30, 2004, total railroad retirement system assets, including those maintained in U.S. Treasury accounts and those maintained by the National Railroad Retirement Investment Trust (the "Trust" or "NRRIT"), equaled some $26 billion, an increase of $2.2 billion during the fiscal year. Amounts in the Railroad Retirement (RR) Account not needed to pay current administrative expenses and amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to the National Railroad Retirement Investment Trust whose Board of seven trustees is empowered to invest Trust assets in non-governmental assets, such as equities and debt, as well as in governmental securities. A total of $586 million was transferred to the Trust during the year.

FINANCIAL OPERATIONS - U.S. TREASURY ACCOUNTS

During fiscal year 2004, railroad retirement and survivor benefit payments were financed through four U.S. Treasury accounts.

The SSEB Account, established in fiscal year 1985, pays the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. The RR Account funds retirement, survivor and disability benefits, in excess of social security equivalent benefits, from payroll taxes on employers and employees and other income sources. Effective January 1, 2002, supplemental benefit payments are paid from the RR Account. The Dual Benefits Payments (DBP) Account and Federal Payments (FP) Account, funded by congressional

Financial information (other than when the term "paid" or "collected" is used) is presented on the accrual basis of accounting instead of the cash basis of accounting, except for the Federal income tax transfer explanation on pages 10 and 11 and the Trust information on pages 7, 13, 15 and 16. Benefit operations data presented on pages 16-25 for the railroad retirement and survivor program and pages 30-32 for the railroad unemployment and sickness insurance program are on a cash basis of accounting. The primary difference between the two bases of accounting is that the accrual basis recognizes revenue when it is earned and expenditures when they are incurred. The cash basis, on the other hand, recognizes revenue and expenditures only when cash is received or paid.

appropriations from general revenues, finance the phase-out costs of certain vested dual benefits and interest on unnegotiated checks, respectively. The four accounts together incurred $9.0 billion in benefit obligations (excluding $1.2 billion in social security benefits which were reimbursed by the Social Security Administration) during fiscal year 2004.

Financing Sources

Payroll Taxes

The primary source of income to the railroad retirement and survivor program is payroll taxes levied on covered employers and their employees. Payroll taxes amounted to $4.4 billion, 44.1 percent of total financing sources and $239.4 million more than in fiscal year 2003.

Railroad employees and employers pay tier I taxes which, by law, are the same as social security taxes. The rate of 7.65 percent is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of earnings subject to the 6.20 percent rate in calendar year 2004 was $87,900, and all earnings were subject to the 1.45 percent Medicare tax. In calendar year 2003, the maximum amount subject to the 6.20 percent tax was $87,000, with all earnings subject to the 1.45 percent Medicare tax. Both employees and employers also pay a tier II tax to finance railroad retirement benefit payments over and above social security levels. This tax, on earnings up to $65,100 in 2004 and $64,500 in 2003, was 4.9 percent on employees. It was 13.1 percent on employers in 2004 and 14.2 percent in 2003.

Tier I and tier II taxes for fiscal year 2004 amounted to more than $2.1 billion and $2.3 billion, respectively. A contingent liability of $172 million for a refund of tier I and tier II taxes was recorded in the general ledger in fiscal year 2004.

Financial Interchange Transfers

The second major source of income to the railroad retirement and survivor program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the Social Security Old-Age, Survivors and Disability Insurance (OASDI) and Hospital Insurance (HI) Trust Funds in the same position in which they would have been had railroad employment been covered by the Social Security and Federal Insurance Contributions Acts. This involves computing the amount of social security taxes that would have been collected on railroad employment, and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year.

In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the Social Security Trust Funds to the SSEB Account. If

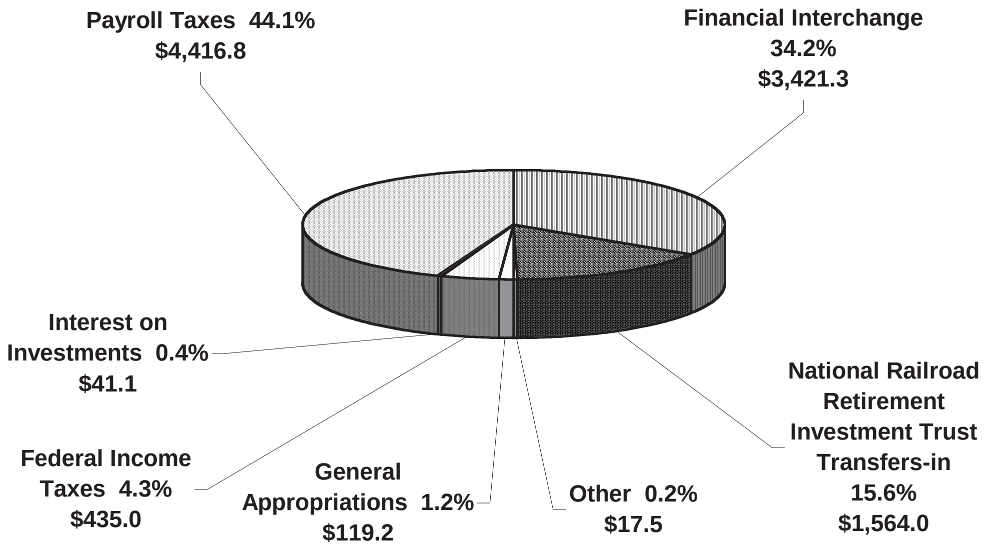
(text continued on page 11)

RETIREMENT AND SURVIVOR PROGRAM

Financing Sources - Fiscal Year 2004 (In Millions)

GROSS TOTAL: $10,014.9

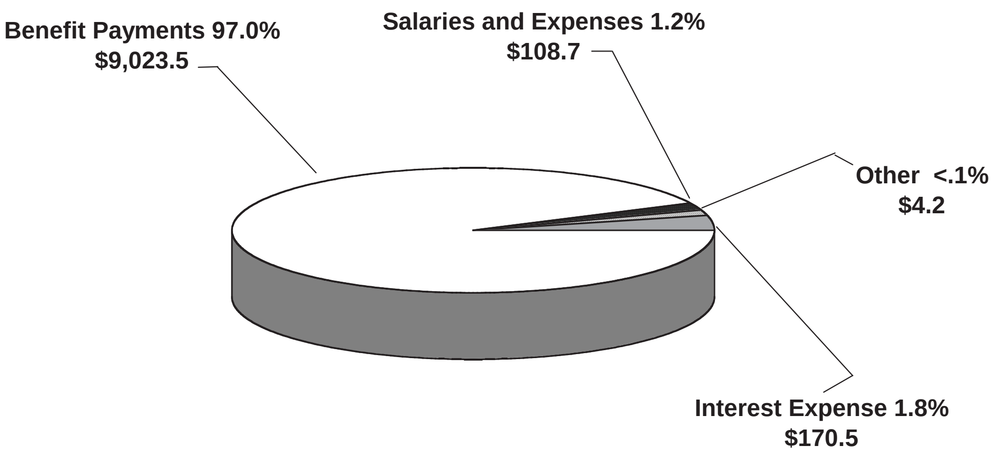
(Excluding transfers to the National Railroad Retirement Investment Trust of $586 million)



Note.--Percentages may not add to 100 due to rounding.

Costs - Fiscal Year 2004 (In Millions)

TOTAL: $9,306.9



Federal Income Tax Transfers by Recipient Account and Benefit Component, Taxable Years 1995-2004 (Millions)

Taxable year	Revenue from taxes on: RRA benefits treated as SSA benefits — SSEB tier I benefits — SSEB Account[2]	Revenue from taxes on: RRA benefits treated as private or public pensions — Tier II and non-SSEB tier I[1] — RR Account	Revenue from taxes on: RRA benefits treated as private or public pensions — Vested dual benefits — DBP Account[3]
Original transfers during the year			
1995	$50	$191	$16
1996	57	192	14
1997	61	195	12
1998	74	196	12
1999	79	227	11
2000	102	245	12
2001	94	229	10
2002	97	252	9
2003	97	283	9
2004	109	294	8
Reconciliation adjustments [4]			
1995 (1999)	+9	+27	. . .
1996 (1999)	+18	+34	+1
1997 (2000, 2001[5])	+25	+43	+3
1998 (2002)	+14	+47	+2
1999 (2003)	+15	+22	+3
2000 (2004)	+3	+17	+3

1 Includes non-SSEB portion of tier I.
2 Receives taxes on social security equivalent benefit (SSEB) portion of tier I.
3 Receives taxes on vested dual benefit component beginning October 1, 1988.
4 The year in parentheses is the year the adjustments were made.
5 Reconciliation of benefits made in October 2001.

taxes exceed benefit reimbursements (this has not happened since 1951), a transfer would be made in favor of the Social Security Trust Funds. The net financial interchange transfer to the SSEB Account during fiscal year 2004 amounted to $3.4 billion.

Interest on Investments and Other Revenue

As a result of the divestiture of investments associated with the transfer of funds to the National Railroad Retirement Investment Trust as required by the Railroad Retirement and Survivors' Improvement Act of 2001, interest revenue decreased from $274.9 million in fiscal year 2003 to $41.1 million in fiscal year 2004. In fiscal year 2004, the RR Account also earned interest revenue from financial interchange advances.

Federal Income Tax Transfers

Legislation enacted in 1983 subjecting social security and railroad retirement benefits to Federal income taxes also provided for a transfer of the tax revenues to the social security and railroad retirement systems for the payment of benefits. Revenue from income taxes on social security equivalent railroad retirement benefits is transferred to the SSEB Account.* Revenue derived from taxing regular railroad retirement benefits in excess of social security equivalent benefits is transferred to the RR Account. Revenue from taxing the vested dual benefits funded by the general revenue appropriations previously described is transferred to the DBP Account.

At the beginning of each quarter, income tax transfers are made from Treasury general funds to the SSEB, RR and DBP Accounts. These transfers are estimates of expected tax revenues for the quarter. Adjustments are made later to reconcile the estimates for a taxable year with actual tax revenues for the year. On a cash basis, original tax transfers for fiscal year 2004 amounted to $406 million during the year. Original transfers for fiscal year 2003 totaled $379 million. Net income tax transfers after adjustments were $445 million for fiscal year 2004, including a $39 million adjustment for calendar year 1999. Net transfers in fiscal year 2003 were $442 million, including $63 million in reconciliation adjustments.

The table on the previous page shows income tax transfers to the Accounts for taxable years 1995 through 2004, including reconciliation adjustments through 2000.

General Appropriations

General revenue appropriations were provided by the Railroad Retirement Act of 1974 to fund the phase-out costs of certain dual railroad retirement/social security benefits considered vested prior to 1975, and by the Railroad Retirement Solvency Act of 1983 to fund interest on unnegotiated checks. The total amounts appropriated by the

(text continued on page 14)

* Legislation enacted in 1993 subjected a larger amount of social security benefits and social security equivalent railroad retirement benefits to Federal income tax for taxpayers in higher income brackets. This provision was effective beginning with taxable year 1994, and the additional revenue raised is transferred to the Federal Hospital Insurance Trust Fund.

Railroad Retirement and Survivor Program - U.S. Treasury Accounts

Consolidated Financing Sources, Costs and Net Position (Millions)[1]

For the Fiscal Year Ended September 30	2004	2003
Financing Sources:		
Payroll Taxes	$4,416.8	$4,177.4
Financial Interchange	3,421.3	3,314.7
Interest on Investments and Other Revenue	41.1	274.9
Net Gain on Sale of Securities	0.0	1,586.5
Federal Income Taxes	435.0	430.0
General Appropriations	119.2	132.2
Other	17.5	14.0
Transfers to the National Railroad Retirement Investment Trust	(586.0)	(19,188.0)
Transfers from the National Railroad Retirement Investment Trust	1,564.0	300.0
Total Financing Sources	9,428.9	(8,958.3)
Costs:		
Benefit Payments	9,023.5	8,875.9
Interest Expense	170.5	187.5
Salaries and Expenses[2]	108.7	106.0
Other	4.2	2.9
Total Costs	9,306.9	9,172.3
Financing Sources over Costs	122.0	(18,130.6)
Net Position - Beginning of Period	551.0	18,681.6
Net Position - End of Period	$673.0	$551.0

[1]Prepared on an accrual basis of accounting.
[2]Includes unemployment and sickness insurance salaries and expenses of approximately $15.6 million for fiscal year 2004, as well as for fiscal year 2003.

National Railroad Retirement Investment Trust (NRRIT)
Fiscal Year 2004 Highlights

Market value of assets managed by NRRIT on September 30, 2004	$25.0 billion
Rate of return of investment portfolio managed by NRRIT for full year ended September 30, 2004	13.3%

Source: *NRRIT's Quarterly Update for the Period Ending September 30, 2004.*

All NRRIT annual management reports and quarterly updates are available on the Railroad Retirement Board's Web site at www.rrb.gov.

Congress for vested dual benefits were $119 million for fiscal year 2004 and $132 million for fiscal year 2003. These amounts include $10 million and $12 million in Federal income tax transfers for 2004 and 2003, respectively. The amount appropriated for fiscal year 2004 was 9.8 percent less than fiscal year 2003, reflecting the continuing decrease in eligibility for these benefits, which are not increased for the cost of living. The total amounts appropriated by the Congress for interest on unnegotiated checks were $150,000 for fiscal years 2004/2005 and also $150,000 for fiscal years 2003/2004.

Other Financing Sources

Other financing sources consisted of $9.4 million to be provided by the Office of Personnel Management to pay future retirement benefits to Railroad Retirement Board employees, and $15.2 million from the railroad unemployment trust funds in transfers-in for current budget fiscal year salaries and expenses. These financing sources were offset by transfers-out of $5.8 million for salaries and expenses of the Board’s Office of Inspector General, and a $1.3 million decrease in unexpended appropriations.

Costs

The Railroad Retirement Board pays all salaries and expenses under a single administrative fund (Limitation on Administration) for both the railroad retirement and survivor program and the unemployment and sickness insurance program. Consequently, of the $108.7 million and $106.0 million shown on page 12 for salaries and expenses in fiscal years 2004 and 2003, respectively, about $15.6 million for fiscal year 2004 and also $15.6 million for fiscal year 2003 were for the unemployment and sickness insurance program. About $1.4 million of the amount shown in other costs for each of fiscal years 2004 and 2003 were for the unemployment and sickness insurance program.

Excluding $17.0 million from total costs of $9.3 billion for fiscal year 2004 and $17.0 million from total costs of $9.2 billion for fiscal year 2003, total costs for the railroad retirement and survivor program for fiscal year 2004 increased $134.6 million or almost 1.5 percent.

Benefit Payments

During fiscal year 2004, railroad retirement benefit payments increased $147.6 million or almost 1.7 percent to about $9.0 billion, including $117 million in vested dual benefits and $63.8 million in supplemental annuities.

Interest Expense

Interest expense of $170.5 million represents interest on the financial interchange advances made by the U.S. Treasury during the fiscal year.

Salaries and Expenses

Excluding unemployment and sickness insurance salaries and expenses of

$15.6 million for fiscal year 2004 and also $15.6 million for fiscal year 2003, salaries and expenses for the railroad retirement and survivor program were about $93.1 million for fiscal year 2004 and about $90.4 million for fiscal year 2003, a $2.7 million or 3 percent increase. Adjusted by the $15.6 million in salaries and expenses and $1.4 million in other costs for the unemployment and sickness insurance program, fiscal year 2004 administrative expenses for the railroad retirement and survivor program were about 1 percent of total costs.

Other Costs

Other costs consisted primarily of post-retirement benefits for Railroad Retirement Board employees of $8.0 million for the railroad retirement and survivor program and $1.4 million for the unemployment and sickness insurance program. In addition, carrier refunds of $1.6 million were incurred. These costs were offset by a nearly $5.7 million reimbursement from the Centers for Medicare & Medicaid Services for Part B Medicare costs, as well as a reimbursement of approximately $0.5 million from the Board's Office of Inspector General for Board-incurred expenses, and various other revenues of approximately $0.6 million.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST OPERATIONS

Funds not needed immediately for benefit payments or administrative expenses are invested. The National Railroad Retirement Investment Trust was established pursuant to section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001. The sole purpose of the Trust is to manage and invest railroad retirement assets. The Act authorizes the Trust to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. Government securities. The Trust has no powers or authority over the administration of railroad retirement benefits. The Trust is a tax-exempt entity independent from the Federal Government. It is domiciled in and subject to the laws of the District of Columbia.

Fiscal year 2004 was a year of continued growth for the Trust. During the fiscal year ending September 30, 2004, a total of $586 million was transferred from the Department of the Treasury accounts managed by the Railroad Retirement Board to the Trust for investment. These assets were invested in an indexed portfolio of equity and debt securities with an asset allocation consistent with the Trust's investment guidelines. As of September 30, 2004, the market value of Trust-managed assets had increased to $25.0 billion, reflecting a 13.3% rate of return for the fiscal year, compared to a 12.7% return for its composite benchmark. In addition, during fiscal year 2004 the Trust transferred $1.564 billion to the Railroad Retirement Account for the payment of railroad retirement benefits.

As of September 30, 2004, total railroad retirement system assets (Trust-managed assets and reserves held in the Treasury accounts) equaled some $26 billion, an increase of over $2 billion during the fiscal year.

Trust operations are described in detail in the National Railroad Retirement Investment Trust Annual Management Report for fiscal year 2004, which is available on the Board's Web site at www.rrb.gov.

BENEFIT OPERATIONS

Retirement and survivor benefits paid, including vested dual benefits and supplemental employee annuities, totaled $9.0 billion in fiscal year 2004, $145 million more than in fiscal year 2003. Benefits were paid to about 648,800 beneficiaries in fiscal year 2004. More than 603,500 beneficiaries were being paid at the end of the year. The adjacent table presents retirement and survivor benefit payments for fiscal years 2004 and 2003, by type of benefit, and the percent changes in payments between the 2 years.

Type of benefit	Amount (in millions) Fiscal year 2004	Fiscal year 2003	Percent change
Retirement benefits			
Employee annuities			
Age	$3,965.8	$3,910.4	+1.4
Disability	1,775.6	1,686.5	+5.3
Supplemental	63.9	66.5	-3.9
Spouse and divorced spouse annuities	1,071.6	1,062.6	+0.9
Total	6,876.9	6,726.0	+2.2
Survivor benefits			
Annuities	2,126.5	2,131.8	-0.2
Lump-sum benefits	4.8	5.1	-4.8
Total	2,131.3	2,136.9	-0.3
Grand total	$9,008.3	$8,862.9	+1.6

Note.-- Detail may not add to total due to rounding.

Under the two-tier railroad retirement formulas, the tier I annuity portion approximates a social security benefit and increases by the cost-of-living percentage applied to social security benefits. The tier II portion, which is comparable to retirement benefits paid over and above social security benefits to workers in other industries, increases by 32.5 percent of the social security percentage. Effective December 2002, tier I portions increased by 1.4 percent while tier II portions increased by 0.5 percent. Increases of 2.1 percent for tier I and 0.7 percent for tier II were effective December 2003.

The December 2002 and December 2003 cost-of-living increases provided additional benefit payments of about $115 million in fiscal year 2004, compared to payments in fiscal year 2003.

Monthly retirement and survivor benefits being paid numbered nearly 736,800 at the end of the 2004 fiscal year, about 19,400 less than at the end of the prior year. Monthly beneficiaries on the rolls declined by almost 16,000 over the year, from 619,500 to 603,500. The number of monthly benefits paid is always greater than the number of beneficiaries on the rolls, since many annuitants receive more than one type of benefit. Although the second benefit is usually a supplemental employee annuity, some employees also receive a spouse or widow(er)'s annuity.

Regular employee annuities in payment status at the end of fiscal year 2004 numbered 288,000, about 5,000 less than at the end of the previous fiscal year. The number of age annuities being paid dropped from 210,400 to 204,700 over the year, while disability annuities rose 700 to over 83,300. Supplemental annuities being paid dropped some 3,200, numbering 126,000 at the end of the year. The number of divorced spouse annuities being paid remained the same at 3,500. Spouse and divorced spouse annuities together declined by almost 3,900, totaling 142,900 at year-end. Nearly 180,000 monthly survivor benefits were being paid at the end of fiscal year 2004, a decrease of 7,300 from the previous year.

Retirement

Regular employee annuities

Awards of regular employee annuities numbered 12,600 in fiscal year 2004, 700 less than in fiscal year 2003. Data by type of annuity awarded during the year are given in the table on this page.

Railroad employees with 10 to 29 years of creditable service, or 5 to 9 years of service if at least 5 years were after 1995, are eligible for regular annuities based on age and service at age 62. Early retirement annuity reductions are applied to annuities awarded before full retirement age--the age at which an employee can receive full benefits with no reduction for early retirement. This ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. If an employee had any creditable railroad service before August 12, 1983, the retirement age for tier II purposes will remain 65. The reduction for early retirement is 1/180 for each of the first 36 months the employee is under full retirement age when his or her annuity begins and 1/240 for each additional month.

Employee annuities awarded in fiscal year 2004	Number	Per-cent	Average: Monthly amount	Average: Years of service	Average: Age at retire-ment
Age					
Beginning at full retirement age or over	900	7	$1,700	22.5	66.7
Unreduced, beginning at age 60 to under full retirement age	5,000	40	2,711	35.3	60.7
Reduced, beginning at age 62 to under full retirement age	1,900	15	1,255	17.7	62.5
Disability	4,800	38	2,168	24.3	53.6
Total	12,600	100	$2,217	27.6	58.7

Note.-- Detail may not add to total due to rounding.

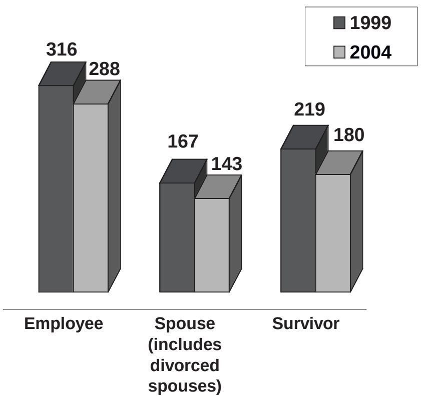
Rail employees with 30 or more years of service are eligible for regular annuities based on age and service at age 60. Certain early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 *before 2002.* Employees who retire at 60 or older with at least 30 years of railroad service are referred to as 60/30 retirees.

Disability awards are based either on total disability or on occupational disability. A *total disability* annuity is based on disability for all employment and is payable at any age to employees with at least 10 years of railroad service. Employees with 5-9 years of service, if at least 5 years were after 1995, may qualify for tier I only before retirement age on the basis of total disability if they also meet certain social security earnings requirements. An employee is considered totally disabled if medical evidence shows that a permanent physical or mental condition exists which prevents the performance of any regular work. A condition is considered to be permanent if it has lasted or may be expected to last for at least 12 months.

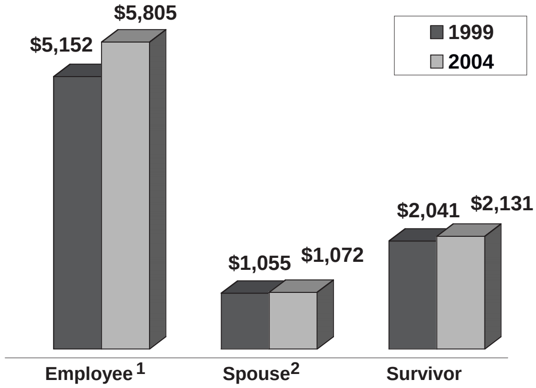
An *occupational disability* annuity is based on disability for the employee's regular railroad occupation and is payable to employees with a current connection with the rail industry at age 60 if the employee has 10 years of service, or at any age if the employee has at least 20 years of service. An employee is considered occupationally disabled if the physical or mental condition is such that the employee is permanently disabled for work in his or her regular railroad occupation, even though the employee may be able to perform other kinds of work.

Of the year's 4,800 disability awards, 1,400 averaging $1,444 per month were for total disability and 3,400 averaging $2,459 were for occupational disability. Many employees who are disabled for all employment but are otherwise qualified for an occupational disability annuity are initially awarded occupational disability annuities in order to expedite payment.

Number of monthly beneficiaries, September 30, 1999, and 2004 (Thousands)

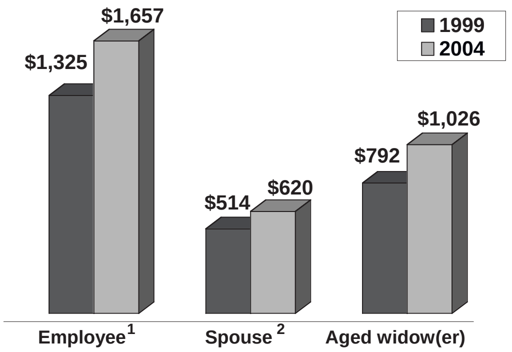


Amount of benefits paid, fiscal years 1999 and 2004 (Millions)



[1]Includes $75.1 million in fiscal year 1999 and $63.9 million in fiscal year 2004 for supplemental annuities. [2]Includes divorced spouses.

Average monthly amount, September 30, 1999, and 2004



[1]Without supplemental annuity. [2]Includes divorced spouses.

An estimated three-fifths of all employees awarded disability annuities will meet the medical criteria for a disability freeze determination. The standards for freeze determinations follow social security law and are comparable to the criteria for granting total disability. Also, an employee granted a disability freeze may qualify for early Medicare coverage and lower Federal income taxes on his or her annuity.

Of the employees who were awarded regular annuities in fiscal year 2004, nearly 8,900, or 70 percent, last worked for a railroad either in the calendar year their annuity began or in the preceding year. Such retirements are termed “immediate,” while those that occur 2 or more calendar years after the year of last railroad employment are called “deferred.” As a group, immediate retirees represent career railroad employees who worked in the industry until retirement. Awards based on immediate retirement averaged $2,525 per month, compared to $1,481 for the 3,700 awards based on deferred retirement. Immediate retirees averaged 31 years of railroad service, considerably more than the average of 20 years for deferred retirees. Of the year’s awards, 54 percent of normal age retirements were immediate. While 86 percent of all 60/30 retirements were immediate, only 16 percent of the reduced age awards to employees with less than 30 years of service were immediate. Immediate retirements accounted for 78 percent of the year’s disability awards.

The 288,000 retired employees on the rolls as of September 30, 2004, were being paid regular monthly annuities averaging $1,657. The table on this page gives data by type of annuity for these benefits.

Of the 83,300 disability annuities being paid, 20,000 were for total disability and 63,300 for occupational disability. The two types of disability annuities averaged $1,165 and $1,937, respectively. In fiscal year 2004, approximately $283 million was paid in total disability annuities and $1,493 million in occupational disability annuities.

Employee annuities in current-payment status on September 30, 2004	Number	Percent	Average monthly amount	Percent immediate retirements
Age				
Beginning at full retirement age or over	30,000	10	$1,225	45
Unreduced, beginning at age 60 to under full retirement age	90,400	31	2,116	95
Reduced, beginning at age 60 to under full retirement age	84,300	29	1,227	39
Disability	83,300	29	1,751	81
Total	288,000	100	$1,657	69

Note. --Detail may not add to total due to rounding.

Some 198,800 employees on the rolls at the end of fiscal year 2004 were immediate retirees and their regular annuities averaged $1,959 per month. Annuities of the 89,100 deferred retirees averaged $984. Although their average railroad retirement annuity was much lower, a greater proportion of the deferred annuitants also received social security benefits--36 percent compared to 6 percent for the immediate retirees. Moreover, the average social security benefit paid to deferred retirees was higher than that paid to immediate retirees. Combined railroad retirement and social security benefits to deferred retirees who were dual beneficiaries averaged $1,215, while combined benefits to immediate retirees averaged $1,645. The table on this page gives numbers of beneficiaries and average benefit amounts for employees on the rolls who were receiving social security benefits, and for those who were not, by type of retirement.

Regular employee annuities consist of as many as three components: tier I, tier II, and a vested dual benefit. Reductions for early age retirement are made in all components in cases where the employee retired before full retirement age with less than 30 years of railroad service. The tier I component is based on the employee's combined railroad and social security covered earnings, and is reduced by the amount of any social security benefit that the employee receives. The gross tier I amounts of employees on the rolls at the end of fiscal year 2004 averaged $1,314 per month. Tier I amounts of some 8,500 employees were completely offset by social security benefits. Tier I amounts being paid averaged $1,170.

The employee tier II component is based solely on railroad earnings. Tier II amounts being paid at the end of fiscal year 2004 averaged $507. Employees are eligible for vested dual benefits if, based on their own earnings, they met certain vesting requirements and qualified for both railroad retirement and social security benefits at the end of 1974, or, in some cases, at the end of an earlier year of last railroad service. More than 53,500 retirees were receiving vested dual benefits averaging $159 at the end of the fiscal year.

Dual benefit status	Total	Type of retirement: Immediate	Deferred
Receiving social security benefit			
Number	43,200	11,000	32,200
Average monthly amount:			
Railroad retirement (regular)	$482	$1,034	$294
Social security	843	611	922
Combined benefit	1,324	1,645	1,215
Not receiving social security benefit			
Number	244,800	187,800	56,900
Average monthly amount	$1,865	$2,013	$1,374

Note. -- Detail may not add to total due to rounding.

Supplemental employee annuities

A supplemental annuity is payable to employees with a current connection with the rail industry at age 60 if the employee has at least 30 years of service, or at age 65 if the employee has 25-29 years of service. The employee must also have had some rail service before October 1981.

Nearly 5,600 supplemental annuities were awarded in fiscal year 2004, 500 less than in fiscal year 2003. More than 4,200 of the awards (75 percent) began concurrently with the employee's regular annuity, while the remaining 1,400 were to employees already receiving a regular annuity. Supplemental annuity awards averaged over $41 per month; 86 percent were at the current maximum rate of $43. Supplemental annuities are reduced for any part of a private railroad pension attributable to employer contributions. During the fiscal year, 1,300 supplemental annuities were not awarded because they were entirely offset by private pensions. In a few cases, the supplemental annuity was partially offset by the pension, or the supplemental annuity was not offset because the pension was reduced.

Supplemental annuities were being paid to about 126,000, or 44 percent, of the retired employees on the rolls at the end of the 2004 fiscal year. These annuities averaged $42; about 1,200 of them were paid under 1937 Act amendments, which stipulated a maximum rate of $70.

Spouse and divorced spouse annuities

Annuity awards to spouses and divorced spouses of retired employees numbered 8,600 in fiscal year 2004, 200 less than in the previous year. The table on the next page presents numbers and average amounts of spouse and divorced spouse annuities awarded during the year and being paid at the end of the year, by type of annuity and whether subject to age reduction.

If an employee is at least age 62 and retires with 10-29 years of railroad service, or has 5-9 years of service and at least 5 years were after 1995, the employee's spouse is eligible for an annuity at age 62. Full retirement age for a spouse is gradually rising from 65 to 67, depending on the year of birth. Early retirement reductions are applied to the spouse annuity if the spouse retires before full retirement age. The reduction for early retirement is 1/144 for each of the first 36 months the spouse is under full retirement age when her or his annuity begins and 1/240 for each month (if any) over 36.

If an employee retires with at least 30 years of service and is at least age 60, the employee's spouse is eligible for an annuity at age 60. Prior to 2002, certain early retirement reductions were applied to the tier I component of such a spouse annuity if the employee retired before age 62, unless the employee attained age 60 and completed 30 years of service prior to July 1, 1984. If a 30-year employee retired at age 62, no age reduction applied to the spouse annuity. December 2001 legislation liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 *after 2001* and their spouses. A spouse of an employee qualified for an age and service annuity is eligible for a spouse annuity at any age if caring for the employee's unmarried child, and the child is under age 18 or the child became disabled before age 22.

Of the 2,500 reduced spouse annuities awarded in fiscal year 2004, 400 averaging $746 per month were to spouses of 30-year employees and some 2,100 averaging $377 were to spouses of employees with less than 30 years of service.

At the end of fiscal year 2004, more than 139,400 spouse annuities averaging $626 per month were being paid. Approximately 3,500 divorced spouse annuities averaging $378 per month were also being paid. Families with an employee and spouse on the rolls were paid combined railroad retirement benefits averaging $2,371. This included $1,745 in regular and supplemental employee annuities and $626 in spouse annuities.

Approximately 55,600, or 39 percent, of the spouses and divorced spouses on the rolls were also receiving social security benefits. Combined railroad retirement and social security benefits to these annuitants averaged $939 per month, including $251 in railroad retirement benefits and $688 in social security benefits. Railroad retirement annuities to the 85,400 spouses not receiving social security benefits averaged $861, while railroad retirement annuities to the 1,800 divorced spouses not receiving social security benefits averaged $541.

Monthly spouse benefits	Awarded in fiscal year 2004		In current-payment status on September 30, 2004	
	Number	Average amount	Number	Average amount
Beginning at full retirement age or over	1,300	$384	20,200	$355
With minor or disabled child in care	300	931	1,400	858
Unreduced, beginning at age 60 to under full retirement age	4,000	1,081	57,800	869
Reduced rate	2,500	431	60,000	478
Total	8,100	761	139,400	626
Divorced spouse annuities	400	416	3,500	378
Grand total	8,600	$744	142,900	$620

Note.-- Detail may not add to total due to rounding.

Like regular employee annuities, spouse annuities consist of up to three components. The tier I component equals one-half of the employee's tier I amount before any reduction for the employee's social security benefit. The spouse tier I amount is reduced for the spouse's receipt of a social security benefit and may be reduced for a spouse's public service pension. The tier I portion may also be reduced if the spouse receives a railroad retirement employee annuity, but this reduction is usually restored through an addition to the spouse tier II amount. Divorced spouses receive only a tier I benefit.

The spouse tier II component equals 45 percent of the employee's tier II amount. Railroad retirement amendments in 1981 precluded further awards of vested dual benefits to spouses.

Of the 139,400 spouses on the rolls at the end of fiscal year 2004, 99,000 were being paid tier I amounts averaging $532 per month. The tier I amounts of 40,400 spouses were completely offset by other benefits also due. Spouse tier II amounts averaged $259. Vested dual benefits averaging $128 were being paid to 3,200 spouses. The 3,500 divorced spouses on the rolls at the end of fiscal year 2004 were being paid tier I amounts averaging $386 per month.

Lump-sum retirement benefits

A lump-sum benefit may be payable at retirement to employees who received separation or severance payments after 1984. This benefit approximates the tier II payroll taxes deducted from separation or severance payments that did not yield additional service credits for retirement. More than $0.5 million was paid in separation/severance lump-sum benefits during fiscal year 2004.

Employees who have at least 10 years of railroad service and are not entitled to a vested dual benefit may be eligible for a dual retirement tax refund if they had concurrent railroad retirement and social security earnings within the period 1951-74. The refund is equal to the social security taxes that the employee paid on the combined railroad and social security earnings in excess of the annual railroad retirement creditable earnings maximum. During the 2004 fiscal year, the Board paid some 2,600 dual retirement tax refunds averaging $94. Most of the payments were to employees retiring during the year. Less than 50 refunds were to survivors, mostly widows, of employees who died before receiving the refund. Employees entitled to dual retirement tax refunds for years after 1974 may claim them on their Federal income tax returns.

Survivor

Monthly benefits

Annuity awards to survivors of deceased railroad employees numbered 9,300 during fiscal year 2004, 400 less than the previous year. Nearly 180,000 survivor annuities were being paid at the end of the fiscal year, including 300 temporarily paid at spouse or divorced spouse annuity rates pending recomputation to widow(er)s' rates. More than 146,900, or 82 percent, of the survivor annuities were to aged widows and widowers.

Monthly survivor benefits	Awarded in fiscal year 2004		In current-payment status on September 30, 2004	
	Number	Average amount	Number	Average amount
Aged widow(er)s'	7,300	$1,378	146,900	$1,026
Disabled widow(er)s'	200	1,257	4,900	865
Widowed mothers' (fathers')	200	1,550	1,100	1,337
Remarried widow(er)s'	300	816	5,300	673
Divorced widow(er)s'	700	777	9,600	674
Children's:				
Under age 18	400	1,056	2,500	1,029
Student	*	1,172	100	1,074
Disabled	200	844	9,500	690
Parents'	*	$725	100	707
Survivor option	. . .	. . .	*	$76
Total	9,300	. . .	180,000	. . .

*Fewer than 50.

Note.-- Data may not add to total due to rounding.

The table on this page presents numbers and average monthly amounts of survivor annuities, by type, for those awarded in the year and those being paid at the end of the year. The one remaining survivor option annuity, paid under laws in effect before August 1946, was to a widow also receiving an aged widow's annuity.

Survivor annuities, like regular employee and spouse annuities, consist of as many as three components: tier I, tier II and, for widows and widowers only, a vested dual benefit. As with spouses, legislation in 1981 precluded new awards of vested dual benefits to widow(er)s.

The tier I component is computed according to social security formulas and is based on the deceased employee's combined railroad and social security earnings. A reduction is made for the survivor's receipt of a social security benefit. There may also be a tier I reduction if the survivor receives a railroad retirement employee annuity or public pension. Remarried and divorced widow(er)s receive a tier I benefit only. A dependent parent receives only a tier I amount if another family member is also receiving benefits or if the parent has remarried.

Survivor tier II amounts are figured as a percentage of an employee tier II benefit. Prior to 2002, the percentages were 50 percent for a widow(er), 15 percent for a child, and 35 percent for a parent. The total tier II amount for a survivor family was subject to a minimum of 35 percent and a maximum of 80 percent of the employee tier II benefit, and all survivor tier II amounts were proportionately adjusted when either limit applied. December 2001 legislation established an "initial minimum amount" for widow(er)s which provides a tier II benefit equal to 100 percent of the tier II amount of the deceased employee, effective February 2002. The maximum tier II amount payable to a family rose to 130 percent of the employee's tier II amount. Widows and widowers are guaranteed a total tier I and tier II amount not less than what they were paid as a spouse, any necessary increase being added to tier II.

Aged widow(er)s, who are eligible for benefits at age 60, have their tier I and tier II amounts reduced if the annuity begins before full retirement age. The eligibility age for unreduced annuities is gradually rising from age 65 to age 67. The maximum age reductions will range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. Excluding some 300 annuities temporarily paid at spouse or divorced spouse rates, aged widow(er)s' annuities being paid at the end of the 2004 fiscal year included 66,600 which were reduced for age. Aged widow(er)s' tier I amounts being paid averaged $865 per month. In nearly 10,200 cases, the tier I amount was wholly offset by reductions for other benefits. Some 55,100 aged widow(er)s were also receiving social security benefits, and these averaged $652. Tier II amounts averaged $220. About 4,900 vested dual benefits averaging $64 were being paid to aged widow(er)s.

The tier I and tier II amounts of disabled widow(er)s' annuities, which begin at ages 50-59, are reduced 28.5 percent for age. Tier I amounts being paid to disabled widow(er)s on the rolls at the end of fiscal year 2004 averaged $718 (in more than 200 cases, the tier I amount was wholly offset by reductions). Social security benefits being paid to about 1,500 disabled widow(er)s averaged $630. Tier II amounts averaged $177, while the 300 vested dual benefits being paid averaged $78.

Tier I amounts paid to widowed mothers and fathers (widows and widowers caring for children) generally equal 75 percent of the full amount payable to an aged widow(er) before any reductions, similar to a social security mother's or father's benefit. Eligible children and grandchildren are paid this same tier I amount. However, if the sum of the tier I amounts of all members of a survivor family exceeds the social security family maximum, then tier I amounts are proportionately reduced so that the total equals the maximum. Reductions for the family maximum usually occur when the family includes three or more beneficiaries. Tier I amounts being paid as of the end of fiscal year 2004 averaged $964 for widowed mothers and fathers and $700 for children. Fewer than 50 mothers (fathers) and nearly 2,500 children received social security benefits averaging $677 and $460, respectively. Tier II amounts paid mothers (fathers) and children averaged, respectively, $394 and $88. None of the widowed mothers received a vested dual benefit.

Lump-sum survivor benefits

A lump-sum death benefit can be payable at the time of an employee's death only if there are no survivors immediately eligible for monthly benefits. For survivors of employees who had at least 10 years of railroad service before 1975, the lump-sum death benefit is based on the employee's earnings through 1974, with a maximum amount of approximately $1,200. If the employee completed the 10th year of service after 1974, the lump-sum death benefit is limited to $255, the maximum benefit payable under social security law, and only the widow or widower living in the same household is eligible for the benefit. Some 5,100 lump-sum death benefits averaging $898 were awarded during fiscal year 2004. Some 600 benefits were to widow(er)s, while 4,500 were to other individuals who paid the funeral expenses. Lump-sum benefits may also be payable to survivors of employees with less than 10 years of service, but at least 5 years after 1995, if the employee met the social security insured status requirements.

Another lump-sum survivor benefit, the residual payment, can be made if no other benefits based at least in part on an employee's railroad service will be payable in the future, and the total of prior benefit payments is less than what the employee paid in pre-1975 railroad retirement taxes. The 60 residual payments awarded in the 2004 fiscal year averaged $2,927. Nearly all of the awards were to widow(er)s of employees not insured for monthly benefits under the Railroad Retirement Act, other relatives, designated beneficiaries, or the employee's estate. However, a few payments went to widow(er)s and parents who elected to waive future monthly benefits in order to receive a residual benefit.

Medicare Enrollments

The Medicare program provides health insurance to persons ages 65 and older, as well as persons under age 65 who have been entitled to monthly benefits based on total disability for at least 24 months or who suffer from chronic kidney disease requiring hemodialysis or transplant. In addition to the basic hospital insurance, or Part A, plan, which is financed through payroll taxes, there is an elective supplementary medical insurance, or Part B, plan for which monthly premiums are charged.

Eligible railroad retirement annuitants and social security beneficiaries whose benefits are payable by the Railroad Retirement Board are automatically enrolled under both plans, but Part B may be declined. Eligible nonretired persons must apply in order to obtain Medicare coverage. The Board automatically enrolled nearly 21,400 beneficiaries for Medicare during fiscal year 2004. As of the end of the fiscal year, some 542,700 persons were enrolled in the Part A plan, and about 528,100 (97 percent) of them were also enrolled in Part B.

Except for benefits for services in Canada, which are paid from the Railroad Retirement Account, railroad enrollees are paid Part A benefits from the Federal Hospital Insurance Trust Fund, the same as persons covered under the social security system. Part B benefits are paid from the Federal Supplementary Medical Insurance (SMI) Trust Funds. The carrier for Part B claims of railroad Medicare enrollees made payments totaling $923 million in the 2004 fiscal year.

The regular monthly premium for medical insurance during fiscal year 2004 was $58.70 for coverage through December 2003 and $66.60 thereafter. The Board generally withholds Medicare premiums for annuitants from their benefit payments, and at the end of the fiscal year approximately 496,000 annuitants were having their premiums withheld. Of the remaining Part B enrollees, some 6,900 were paying premiums to the Board, either directly or through an intermediary, and 25,200 had their premiums paid by State agencies. The Board periodically transfers premiums to the SMI Trust Funds.

RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

FINANCIAL OPERATIONS

Financing sources for the railroad unemployment and sickness insurance program during fiscal year 2004 exceeded costs by $36.0 million and the net position increased by $36.0 million from $51.5 million at the end of fiscal year 2003 to $87.5 million at the end of fiscal year 2004. For fiscal year 2004 as compared to fiscal year 2003, total financing sources for the railroad unemployment and sickness insurance program decreased by $11.5 million (8.8 percent) to $118.6 million.

(text continued on p. 29)

Unemployment and Sickness Insurance Program

Consolidated Financing Sources, Costs and Net Position (Millions)[1]

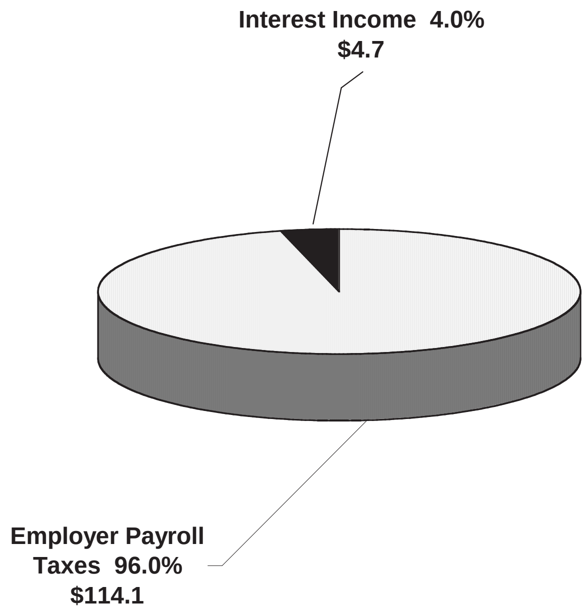
For the Fiscal Year Ended September 30	**2004**	**2003**
Financing Sources:		
Employer Payroll Taxes	$114.1	$143.3
Interest Income	4.7	2.8
Other	(0.2)	(16.0)
Total Financing Sources	118.6	130.1
Costs:		
Benefit Payments:		
Unemployment	37.8	43.5
Sickness	44.8	50.9
Total Costs	82.6	94.4
Financing Sources over Costs	36.0	35.7
Net Position - Beginning of Period	51.5	15.8
Net Position - End of Period	$87.5	$51.5

[1]Prepared on an accrual basis of accounting.

UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

Financing Sources - Fiscal Year 2004 (In Millions)

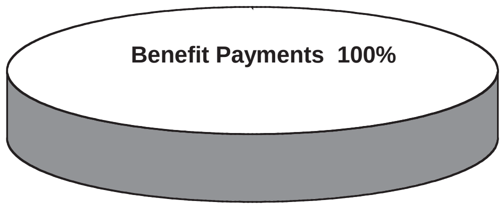
GROSS TOTAL $118.8



Net of Transfer = $118.6

Costs - Fiscal Year 2004 (In Millions)

TOTAL $82.6



Financing Sources

The primary financing source of the railroad unemployment and sickness insurance program is a payroll tax on railroad employers, based on the taxable earnings of their employees. The employees themselves are not taxed.

Each employer pays taxes at a rate which takes into consideration its employees' actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unemployment and sickness pay taxes at a lower rate than those with higher levels of benefit usage. Each employer's rate also has a component for administrative expenses and a component to cover costs shared by all employers. The rate applies to monthly earnings up to an indexed maximum. In calendar year 2004, the taxable earnings base was the first $1,130 of each employee's monthly earnings. The earnings base is indexed each year by a rate which is equal to approximately two-thirds of the annual rate of increase in the maximum base for railroad retirement tier I taxes.

In 2004, the basic tax rates on railroad employers, including covered commuter railroads, ranged from a minimum of 2.15 percent (which includes a surcharge of 1.5 percent) to a maximum of 12 percent. Most employers were assessed the minimum rate in 2004. New employers in 2004 paid an initial rate of 2.38 percent.

Employer Payroll Taxes

Payroll taxes by employers totaled $114.1 million during fiscal year 2004. This was a decrease of 20.4 percent or $29.2 million less than the previous year.

Interest

Cash not needed immediately for unemployment and sickness insurance benefits or operating expenses is held in the Federal Unemployment Insurance Trust Fund and invested by the Secretary of the Treasury. The fund earned an average rate of return of 5.79 percent in fiscal year 2004, of which the Railroad Retirement Board earned $4.7 million as its pro rata share.

Other Financing Sources

Other financing sources shown are the carriers' refunds of payroll taxes of $0.2 million.

Costs

Total costs for the railroad unemployment and sickness insurance program decreased by $11.8 million (12.5 percent) to $82.6 million. These costs consisted solely of benefit payments.

Benefit Payments

During fiscal year 2004, unemployment insurance benefit payments decreased by $5.7 million (13.1 percent) to $37.8 million. Sickness insurance benefit payments decreased $6.1 million (12.0 percent) to $44.8 million.

BENEFIT OPERATIONS

Net unemployment and sickness benefits totaling $84.7 million were paid in the 2003-2004 benefit year, $10.8 million less than in the prior year. Beneficiaries numbered 32,100 in comparison to the previous year's total of some 36,400. Approximately 1,200 employees received both unemployment and sickness benefits during the 2003-2004 benefit year. The number of unemployment benefit claimants decreased by over 24 percent, while sickness benefit claimants decreased by less than 4 percent. Total unemployment benefit payments decreased by over 16 percent, while net sickness benefits decreased by almost 7 percent. The number of employees qualified for benefits under the Railroad Unemployment Insurance Act fell almost 4 percent to 248,800.

Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year. During benefit year 2003-2004, there were 9,400 and 17,500 unemployment and sickness benefit waiting period claims, respectively.

Unemployment

Almost 11,700 railroad workers were paid $38.3 million in unemployment benefits during the 2003-2004 benefit year. The number of benefit claimants decreased by 3,700 from the prior year total of 15,400, while the benefit amount fell $7.4 million from the year-earlier total of $45.6 million. The claimant count was the lowest since benefit year 1997-1998. The average number of compensable days per unemployment benefit claimant was 64 in benefit year 2003-2004 as compared to 62 in the previous benefit year. This was the highest number of compensable days since benefit year 1995-1996.

The mid-month unemployment count in the 2003-2004 benefit year began with a July count of 2,500 claimants. The count peaked at 5,400 in January, then dropped down to 1,800 in June 2004. For the 2003-2004 benefit year as a whole, the weekly number of claimants averaged 3,300 in comparison to an average of 4,100 in the previous benefit year. The overall unemployment benefit claimant rate, measured in relation to numbers of employees qualified to receive benefits under the Railroad Unemployment Insurance Act during a particular time period, decreased to 5 per 100 qualified from the previous year's level of 6 per 100 qualified. The median age of all unemployment benefit claimants was 45 years; it was 44 in the previous benefit year.

Sickness

The number of sickness benefit claimants during the 2003-2004 benefit year was 21,600, over 800 lower than in the previous year. Gross sickness benefits of

NOTE.--Railroad unemployment and sickness benefits are paid on the basis of benefit years beginning July 1 and ending June 30 of the following year. Consequently, operational data in this "Benefit Operations" section are generally presented for this time span, rather than fiscal years beginning October 1 and ending September 30.

Major unemployment and sickness benefit operations, benefit years 2003-2004 and 2002-2003

Item	Benefit year 2003-2004			Benefit year 2002-2003		
	Total	Unemploy-ment	Sickness	Total	Unemploy-ment	Sickness
Applications	41,000	14,400	26,600	46,200	18,300	27,900
Claims	268,600	91,700	176,800	302,100	116,400	185,700
Beneficiaries	[1]32,100	11,700	21,600	[1]36,400	15,400	22,400
Net amount of benefits	$84,676,600	$38,263,900	$46,412,800	$95,505,300	$45,614,000	$49,891,300
Number of payments						
Normal	206,800	70,300	136,500	233,000	89,900	143,000
Extended	22,300	6,100	16,300	24,500	6,800	17,700
Total	229,100	76,400	152,700	257,400	96,700	160,700
Average amount per 2-week registration period						
Normal	$486	$478	$489	$459	$451	$465
Extended	451	454	450	424	420	425
Total	483	477	486	456	449	461

[1] Benefits for both unemployment and sickness were paid to approximately 1,400 employees in benefit year 2002-2003 and 1,200 employees in benefit year 2003-2004. Those claimants who had only a non-compensable waiting period are not included in the beneficiary counts since no benefits were paid.

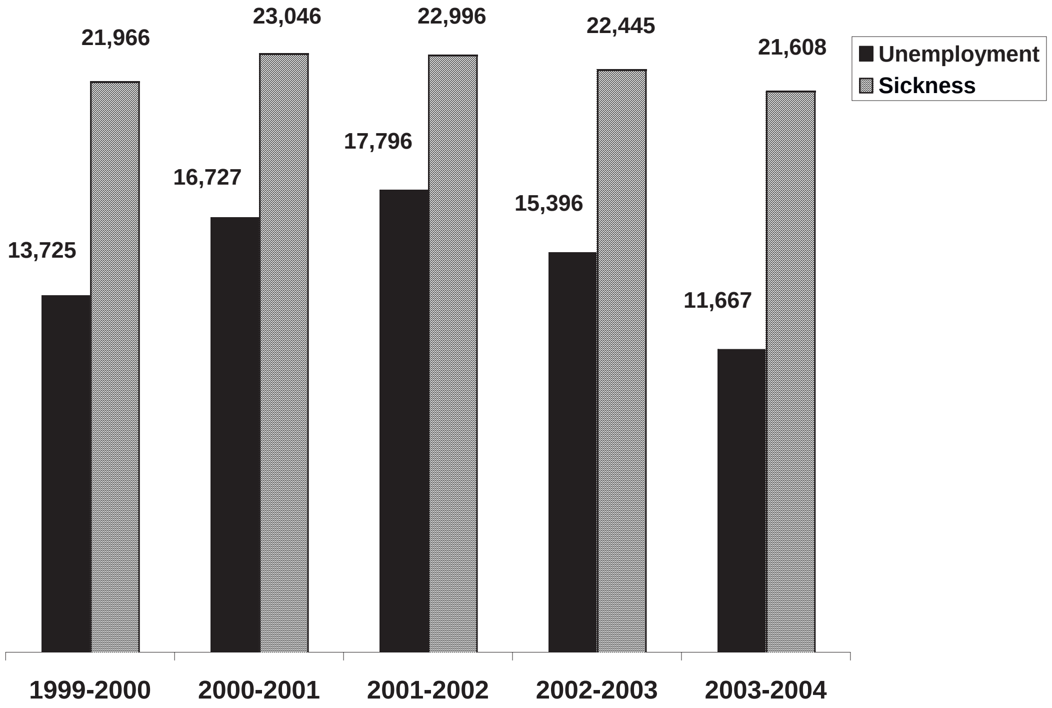
$83.7 million were paid, the same as in the prior benefit year. Net sickness benefits totaled $46.4 million, reflecting repayment of a large amount of benefits following settlements of suits for injuries. Benefits payable for an injury are recoverable if the claimant is awarded damages or receives a settlement for the injury. Net benefits decreased by $3.5 million in comparison with the previous year.

After continual increases since benefit year 1995-1996, the utilization rate for sickness benefits remained the same as in the prior benefit year. The average duration of sickness decreased slightly to the lowest duration in the last 4 years.

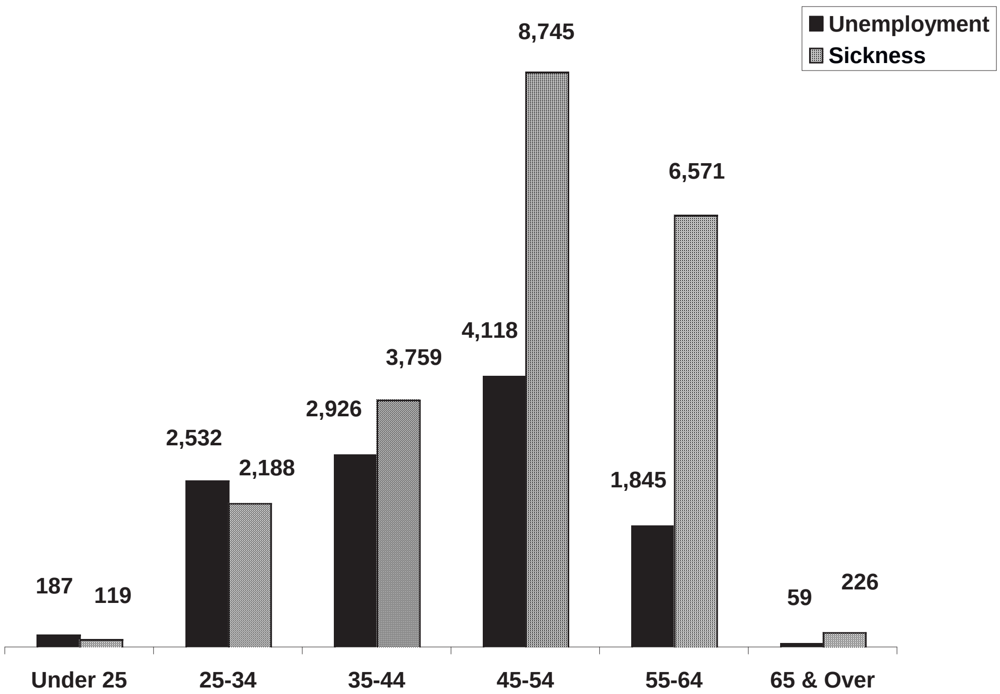
Among the most common causes of sickness were injuries that included fractures or wounds (affecting 25 percent of beneficiaries), arthritis and disk disorders (21 percent), circulatory and heart disease (9 percent), and mental disorders, including drug and alcohol addictions (11 percent). The percentages remained unchanged from the previous year. The median age of all sickness benefit claimants was 51 years, the same as in the previous benefit year.

Benefit Year	Utilization Per 100 Qualified Employees	Average Compensable Days
2000-2001	8.3	71
2001-2002	8.5	73
2002-2003	8.7	71
2003-2004	8.7	70

Claimants under the Railroad Unemployment Insurance Act, Benefit Years 1999-2000 through 2003-2004



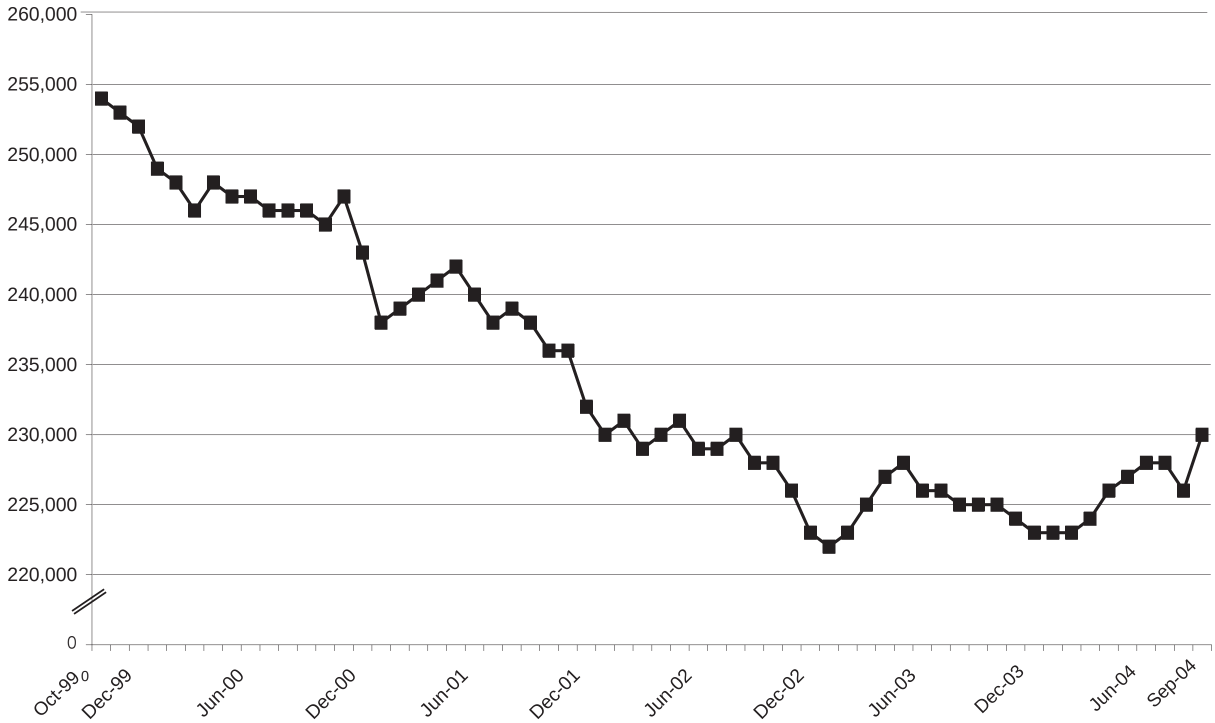
Unemployment and Sickness Benefit Claimants By Age, Benefit Year 2003-2004



RAILROAD EMPLOYMENT

Average monthly railroad employment in fiscal year 2004 rose by less than 1.0 percent to 226,000 from the 225,000 average of the previous year. September 2004 had the highest level of employment in fiscal year 2004 with 230,000 and February 2004 had the low of 223,000. Average employment increased for the first time since fiscal year 1998-1999.

Average Railroad Employment
Fiscal Years 2000 through 2004



***Note*.--**Numbers for 2004 are preliminary.

ADMINISTRATIVE DEVELOPMENTS

The following describes some major issues addressed in 2004 and 2005 as the Railroad Retirement Board continued efforts to improve agency operations and better serve its customers.

Service

Customer Service Plan

The Railroad Retirement Board's Customer Service Plan promotes the principles and objectives of customer-driven quality service agency-wide and is benchmarked to service levels in both government agencies and private industries performing similar functions. The Board's plan specifies the level of service customers can expect, measures performance, and obligates the Board to report annually on its performance. The plan is reviewed and updated periodically on the basis of the Board's experience, comparisons of the Board's service with the best in business, and feedback received from customers.

In 2004, the Board developed an index to measure the overall timeliness of its customer service in four benefit areas: retirement applications; survivor applications; disability applications and payments; and railroad unemployment and sickness benefit applications and claims. The Board believes that using this composite indicator, based on a weighted average, allows for a more concise and meaningful presentation of its customer service efforts in these benefit areas. During fiscal year 2004, overall benefit timeliness was 98.5 percent. It should be noted that the RRB's Office of Inspector General has found some discrepancies in the performance measurement process which will be corrected in 2006.

The plan requires that persons who file in advance for a railroad retirement employee or spouse annuity will receive their first payment, or a decision, within 35 days of their annuity beginning date. Persons who do not file in advance will receive their first payment, or a decision, within 65 days of the date they filed their application. Of the cases processed during fiscal year 2004, 92.4 percent of employee and 96.3 percent of spouse applicants who filed in advance received a payment, or a decision, within 35 days of their annuity beginning date. Taking these employee and spouse cases together, 94.7 percent of this group met the agency's standard for fiscal year 2004. Also, 98.6 percent of employee and 96.8 percent of spouse applicants who had not filed in advance received a payment or a decision within 65 days of their filing date. Taken together, 97.8 percent of these cases met the agency's standard.

The Board's plan requires that those who file for a disability annuity receive a decision within 105 days of the date they filed their application. If entitled, the first payment will be within 25 days of the date of the Board's decision, or the earliest possible payment date, whichever is later. Of the cases processed during fiscal year 2004, 55.9 percent of those filing for a disability annuity received a decision within 105 days of the date they filed an application. Average processing time was 110.2 days. Of those entitled to disability benefits, 94.8 percent received their first payment within the plan's time frame.

The plan requires that those filing for monthly survivor benefit payments, or a lump-sum benefit, will receive their first payment, or a decision, within 65 days of the date they filed their application, or became entitled to benefits, if later. Those already receiving a spouse annuity will receive their first payment, or a decision, within 35 days of the date the Board receives notice of the employee's death. Of the cases processed during fiscal year 2004, 84.5 percent of the applicants for an initial survivor annuity were issued a payment or a decision within 65 days. In addition, 95.4 percent of the applicants for a lump-sum benefit were issued a payment or a decision within 65 days. In cases where the survivor was already receiving a spouse annuity, 94.1 percent of the applicants were issued a payment or a decision within 35 days of the Board being notified of the employee's death.

Persons who file an application for unemployment or sickness insurance benefits will receive a claim form, or a decision, within 15 days of the date the application was filed, and persons filing claims for subsequent biweekly unemployment or sickness insurance benefits will receive a payment, or a decision, within 15 days of the date the Board receives their claim forms. During fiscal year 2004, 99.25 percent of unemployment benefit applications sampled for timeliness and 99.4 percent of sickness benefit applications processed met the Board's standard. In addition, 99.7 percent of subsequent claims processed for unemployment and sickness benefits met the Board's standard for fiscal year 2004.

In fiscal year 2004, 99.3 percent of all correspondence the Board received was responded to, either with an acknowledgement or with a final reply, within the agency's 15-day standard.

Internet Services

Employer Reporting System.-- The Employer Reporting System, available on the Board's Web site at www.rrb.gov, allows rail and labor employers to electronically file information related to the reporting of employee service and compensation data.

The Board is currently working to enhance the system to allow for filing of additional forms, including those for prepayment and postpayment verification for unemployment and sickness claims.

RUIAnet.-- During 2004, railroad employees were provided the option of filing biweekly claims for railroad unemployment benefits over the Internet. Through the

Board's RUIAnet service, employees are also able to file applications for unemployment benefits.

The Board is working to add an "account status" feature to RUIAnet, which will allow railroad employees to view the status of their unemployment and sickness applications and claims.

Although claimants cannot file applications or biweekly claims for railroad sickness benefits over the Internet, the Board is planning to add the online filing of sickness claims in the future.

E-Gov.--Section 207(f)(2) of the E-Government Act of 2002 requires federal agencies to develop an inventory of their Web site that identifies categories of information and services both currently available and to be made available in the future. The Board prepared and posted an inventory in 2004 as required by law.

Technology and Automation

RRBVision

The Board purchased a Windows-based communications system called Mediasite Live that allows users to view video presentations with accompanying training materials, such as PowerPoint presentations or on-line screens. Presentations can be viewed in real-time or saved to a server for later viewing.

In 2004, eighteen presentations (referred to as "RRBVision" programs) were developed and placed on the agency's Intranet for viewing by employees. Topics ranged from technical training for claims examiners to Office of Equal Opportunity guest speakers.

The benefits of RRBVision include consistency in training, a greater number of training programs available to offsite staff, availability of training on-demand, and reduced travel costs when programs can be done via RRBVision instead of in person. The Board plans to make RRBVision available on the agency Web site to provide training and instructions to rail employers, beneficiaries and claimants.

Health Insurance Portability and Accountability Act (HIPAA)

The implementation of the Health Insurance Portability and Accountability Act (HIPAA) requires that all claims for reimbursement except for small providers under the Medicare programs be submitted electronically beginning on October 16, 2003. Since that time, the Electronic Media Claims submitted to Palmetto GBA, the agency's Part B Medicare carrier, in HIPAA compliant format has been growing steadily, from less than 10 percent at its inception to approximately 99 percent at the end of December 2004. In addition, the percentage of claims submitted electronically to Palmetto GBA also increased, from 19 percent in October 2003 to 34 percent in December 2004.

System Processing Excess Earnings Data (SPEED)

SPEED is an automated system that provides a single source for both retirement and survivor annuitant earnings information. With implementation of the system, SPEED began accepting and editing earnings reports for retirement and survivor annuitants, retrieving and displaying data from other automated sources, and creating referrals when manual handling is required. Earnings reports are entered into SPEED by field office and headquarters adjudication staff. Once entered and accepted by the system, a work item is generated for further examiner handling. Version 1 of the system provides the foundation for eventual mechanization of adjustment actions related to an annuitant's excess earnings or last person service employment.

In version 2 of the system, implemented in October 2004, SPEED began calculating suspension months and effecting a suspension of annuity payments.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003

Railroad employees and railroad retirement beneficiaries who are eligible for Medicare are covered by provisions of this new law in the same manner as beneficiaries under the Social Security Act. The Centers for Medicare & Medicaid Services (CMS) and the Social Security Administration (SSA) are assigned primary responsibilities for implementing the legislation. Several of the major provisions, however, will require the Board to make changes to automated systems and procedures.

A project team is implementing system changes necessary to ensure that railroad retirement beneficiaries are considered for prescription drug subsidies by SSA, and that beneficiaries are able to have drug plan premiums deducted from their monthly benefits if they choose this method of payment. The Board is working with staff from CMS and SSA to implement the business and technical requirements required by the prescription drug legislation. A new computer matching agreement was developed between the Board, CMS, and SSA to support this initiative.

Intrusion Detection System (IDS)

The agency purchased an enterprise IDS in fiscal year 2004. The IDS was placed into operation in February 2005, greatly assisting the Board's Computer Emergency Response Team in detecting and responding to computer security incidents.

Continuity Planning

The Business Continuity Plan (BCP) was completed to provide for the recovery and continuity of critical business functions performed by the Board's bureaus and offices at designated alternate sites immediately following a disaster or major disruption impacting Board headquarters operations. Orientation training on the BCP was provided to key personnel and the agency's Occupant Emergency Plan was finalized. The plans are components of the Board's Disaster Recovery and Continuity of Operations Plans.

New Mainframe

The Board successfully completed the conversion of all its mainframe applications to a new IBM Z890 enterprise server. The new machine has 40 percent more processing capacity than the previous equipment and is expandable to three times the capability currently being utilized. Users have experienced faster response times.

File Transfer Protocol

The configuration of File Transfer Protocol capability was completed. This capability allows the transport of large files easily from one computer source to another. It also provides a fast and secure alternative to transfer data. In the future, railroads and other organizations could use this medium rather than cartridges or other slower tape mediums to transfer data to the Board.

Officials

Michael S. Schwartz continues to serve as Chairman of the Railroad Retirement Board. V. M. Speakman, Jr. continues to serve as Labor Member, and Jerome F. Kever continues to serve as Management Member.

The Board named Terri S. Morgan as Chief Information Officer. As CIO, Ms. Morgan heads the Board's Bureau of Information Services and is responsible for planning, directing and coordinating the agency's information resources management program.

Change-Facilitation Project

For the last few years, the Board has been subject to budgetary limitations that delayed implementation of some information technology initiatives and resulted in critical positions not being filled. In order to address this trend, in January 2004 the three-member Board met with the six members of the agency's Executive Committee (EC) to discuss the status of the agency's current operations and longer-term strategic direction. This resulted in a decision to use the services of a professional facilitator who would assist the EC in developing recommendations that would provide cost savings for the agency and enable the Board to function in an efficient and effective manner well into the future.

Specifically, the EC was tasked by the Board Members to come up with change ideas that would help the agency overcome the anticipated budget constraints during the upcoming fiscal years. During the spring of 2004, the EC participated in five offsite strategic planning sessions, exploring ways for the agency to perform its mission differently while maintaining, and possibly improving, efficiency and effectiveness. Because approximately 80 percent of the agency's budget represents compensation and benefit costs, the EC concentrated most of its efforts on reviewing this area for potential savings and change. Ideas for change also included exploring changes in agency policies, regulations and legislation, competitive sourcing of commercial activities and introducing new cost efficiencies of existing services. The EC also looked at organizational restructuring in the field service, and possible changes in program integrity, program support and administrative support activities.

In the end, the EC agreed on a comprehensive approach to help meet the challenges of the coming budget years that involves strategic, pragmatic solutions. This approach is based on a shared objective of maintaining the quality and timeliness of the Board's operations in all areas to the maximum extent possible, within the likely budget constraints. The agency's two strategic goals of customer service and stewardship were the key considerations in the deliberations. Virtually everything the Board currently does is geared toward achieving those two goals. Therefore, the EC seriously considered the impacts and risks of altering, reducing or discontinuing any activities or functions.

The key elements of the proposed strategy were as follows:

- Organizational restructuring for more stable and flexible customer service;
- Competitive sourcing of commercial activities where cost-effective;
- New cost efficiencies through technology; and
- Other cost reductions, including staffing and policy changes, as needed.

As part of the implementation plan, the EC encouraged the Board Members to consider use of voluntary separation incentive payments, or buyouts, in conjunction with early retirement authority, as an alternative to layoffs in obtaining staff savings. The Board Members also approved establishment of two in-house committees to review the agency's field service structure and outsourcing of certain information technology activities, including the agency's mainframe-based data center. Both areas were key components of the final EC report. At the same time, the Director of Administration was asked to look at the possibility of outsourcing document production and mail processing services, depending on the outcome of the buyout program in those particular areas.

Staffing

In order to deal with increasingly tight budgetary resources, and related human capital issues, the Board requested authority to offer voluntary separation incentive payments, or buyouts, and early retirements from the U.S. Office of Personnel Management (OPM). The two separate requests went to OPM in August 2004, with a desired effective date of October 1. By allowing people to voluntarily separate as early in the fiscal year as possible, agencies can maximize savings over the balance of the year. The requests largely stemmed from the agency's anticipated budgets for fiscal year 2005 and beyond, coupled with the increasingly high percentage of the agency's employees eligible for retirement.

A key part of this approach involved the possibility that more than the minimum number of employees would retire, thereby allowing the additional savings to be used in filling some entry-level positions in critical areas for the first time in several years.

This will assist the Board in succession planning efforts as its workforce ages and more employees become eligible for retirement. It will also help position the agency for succeeding years, as budgets are expected to remain tight.

The Board successfully obtained authority from OPM to offer buyouts and early retirement through December 31, 2004. While budget projections indicated that the agency would need to decrease staffing by about four dozen employees during fiscal year 2005, the Board had 77 retirement-eligible employees leave with buyouts during the first quarter. As a result, the agency will be able to use the additional savings to fill some entry-level positions. At the same time, the Board is taking advantage of existing expertise in filling managerial vacancies that resulted from the buyout program. The net result will be a concerted effort to address any skills imbalances in the context of a more efficient organizational structure.

Building Management

The Department of Labor moved about 50 employees to the 12th floor of the Board's headquarters building, staffing a telephone service center that handles registration for certain foreign-based businesses. Previously, workers for the Bureau of the Census temporarily occupied space on the same floor as part of the 2000 census.

Office of Equal Opportunity

Diversity Program

During 2004, the Office of Equal Opportunity's employee committees sponsored many events and activities at the Board to foster a diverse work environment and enhance the understanding of disability issues.

Throughout the year, the Workplace Diversity Committee held various activities including an International Food Festival and several programs to commemorate African American History Month, Asian Pacific American Heritage Month, Hispanic Heritage Month, Native American Heritage Month and Women's History Month. In addition, employees throughout the agency worked together in groups to create a Diversity Quilt.

During Disability Awareness Month, the Employees with Disabilities Advisory Council sponsored an information program featuring the American Heart Association. Also, the Board partnered with the City of Chicago for National Disability Mentoring Day. For this event, Council members served as mentors for a disabled high school senior who visited the agency.

The Office of Equal Opportunity also developed a new employee publication, *Working Together*. The newsletter includes articles on diversity-related topics and the discrimination complaint process.

Equal Opportunity Policy and Procedure

The Office of Equal Opportunity implemented the new Equal Employment Opportunity Commission (EEOC) Management Directive 715 and submitted a comprehensive report which measured the effectiveness of the agency's equal employment opportunity programs via statistical workforce analysis and an assessment of policies and practices.

Equal Opportunity Complaint Processing

A new brochure to inform Board employees and job applicants about the agency's discrimination complaint program was created and distributed.

The agency enrolled in the EEOC Chicago District Office Federal EEO Mediation Program which provides a method for resolving disputes fairly and efficiently at an early stage in the complaint hearing process.

Recruitment

The Office of Equal Opportunity worked cooperatively with the Board's Bureau of Human Resources to increase diversity in external recruitment efforts by identifying sources of minority students for the outstanding scholar hiring authority as well as providing local minority, disability and disabled veteran recruitment sources in field office locations.

Public Information Activities

The Board maintains direct contact with railroad retirement beneficiaries through its field offices located across the country. Field personnel explain benefit rights and responsibilities on an individual basis, assist railroad employees in applying for benefits and answer any questions related to the benefit programs. The Board also relies on railroad labor groups and employers for assistance in keeping railroad personnel informed about its benefit programs.

At informational conferences sponsored by the Labor Member of the Board for railroad labor union officials, Board representatives describe and discuss the benefits available under the railroad retirement-survivor, unemployment-sickness and Medicare programs, and the attendees are provided with comprehensive informational materials. A total of 1,791 railroad labor union officials attended 31 informational conferences held in cities throughout the United States during 2004. In addition, railroad labor unions frequently request that Board representatives speak before their meetings, seminars and conventions. In 2004, the Labor Member's Office was represented at six union gatherings attended by 1,950 railroad labor officials. Field personnel addressed 132 local union meetings with 7,612 members in attendance.

At seminars for railroad executives and managers, Board representatives review programs, financing, and administration, with special emphasis on those areas which require cooperation between railroads and Board offices. During 2004, the

Management Member's Office conducted six seminars for railroad officials, as well as pre-retirement counseling seminars attended by railroad employees and their spouses, and benefit update presentations.

Office of Inspector General

During fiscal year 2004, the Office of Inspector General conducted 12 audits and management reviews to identify operational weaknesses and offer recommendations for improvement to agency management. Auditors focused on financial management issues and information system security activities at the agency. Auditors concluded the audit of the Railroad Retirement Board's fiscal year 2003 financial statements, related internal controls and compliance with laws and regulations, and issued a clean opinion on the financial statements. They cited two material weaknesses: the agency's overall control environment and information system security. The Office of Inspector General also identified three serious management challenges facing the agency: asset stewardship, managing for change and information technology security.

In accordance with the provisions of the Federal Information Security Management Act of 2002, auditors conducted the annual evaluation of information security and assessed the effectiveness of the agency's information system security program and practices. They identified material weaknesses resulting from deficiencies in access controls in mainframe and end-user computing environments and training provided to staff with security responsibilities. Auditors also performed reviews of access controls for in-house developed applications controlled by commercial access control software products and two major mainframe applications, the Federal Financial System and the Program Accounts Receivable System. As a result of these reviews, management agreed to implement changes to limit access to agency computer resources and protect them against unauthorized change, loss or disclosure.

The Office of Inspector General also provided management with a briefing paper on improper payments that summarized past oversight activities, previous recommendations for improvement and planned coverage. In addition, a recommendation was issued to the Board Members to follow the Social Security Administration's policy that denies payment of benefits to incarcerated and fugitive felons. Other issues examined during the year included document imaging, Railroad Unemployment Insurance Act accounts receivable, spouse annuity work deductions, the purchase card program, and the agency's procurement activities.

Investigative activities resulted in 42 criminal convictions, 32 indictments and informations, 37 civil judgments and $22,290,556 in recoveries, restitutions, fines, civil damages, and penalties. In August 2004, a significant case involving commercial contract fraud was completed. Special agents had determined that three major health care insurance companies, United HealthCare Corporation, the Metrahealth Insurance Company, and the Travelers Insurance Group, Inc., had falsified reports in connection with contracts with the Board and the Centers for Medicare & Medicaid Services (CMS) to process Medicare claims. Under the settlement agreements, the United Healthcare

Insurance Company and the Travelers Insurance Group were ordered to pay $9.7 million and $10.7 million, respectively, to CMS. Of the total settlement, $4,424,021 was associated with the Railroad Retirement Board's contracts with the two companies.

Special agents also investigated the theft of government property from the Board's headquarters building during the year, and identified weaknesses in the enforcement of building access procedures. Agency management was provided with recommendations to strengthen building security procedures.

LEGAL RULINGS

Ten cases involving the Railroad Retirement Board were resolved by the courts during fiscal year 2004. Several significant legal opinions were issued.

Court Cases

Eleven cases of various types involving petitions for review of decisions of the Railroad Retirement Board were pending in the courts at the beginning of fiscal year 2004, and six cases were opened during the fiscal year. Ten cases were resolved during fiscal year 2004; eight were decided in the Board's favor. Seven cases were pending at the end of the fiscal year. The following describes the case of most significance to railroad employers and employees.

On December 15, 2004, the United States Court of Appeals for the Third Circuit issued a decision to be published, affirming the decision of the Board in the case of *Janet Belczyk Cunningham* v. *Railroad Retirement Board*.

The Board had dismissed the petitioner's appeal concerning the denial of entitlement to sickness benefits, on the basis that it was not timely filed. The Court concluded that it did not have jurisdiction to review the Board's decision refusing to reopen a claim for benefits after the time for administrative appeal has expired, and dismissed the petitioner's request for review.

Legal Opinions

The following Legal Opinions are presented here because of their special significance or interest.

Legal Opinion L-2004-01 concerned two competing spouse annuity applications. The employee stated in his application for an annuity that he had married his current wife in 1984 after divorcing his previous wife in 1981.

The previous wife claimed that she was separated from the employee but not divorced from him. She submitted a written statement to that effect from the employee and was awarded a spouse annuity in 1997. In connection with a subsequent investigation, the employee did not provide proof of the divorce from his previous wife or of his marriage to his current wife.

In 2002 the current wife also filed an application for a spouse annuity. She provided proof that she had married the employee in 1984, and the Board obtained proof of a divorce between the employee and his previous wife as of 2000. The agency denied the current wife's application on the basis that her marriage to the employee was invalid since the employee was still married to his previous wife when he married her. She requested reconsideration of this decision and also filed a second annuity application with proof of another marriage to the employee in 2003.

Therefore, the employee married his previous wife in 1965, married his current wife in 1984, divorced the previous wife in 2000, and married the current wife in a second ceremony in 2003.

The General Counsel pointed out that the states involved recognize a strong presumption in favor of the validity of the most recent marriage, but that that presumption may be rebutted. The General Counsel ruled that the presumption in favor of the validity of the most recent marriage was rebutted in this case and that the 1984 marriage was invalid. Further, the 2000 divorce between the employee and his previous wife did not prospectively render valid the 1984 marriage under the law of the state involved (Utah). Accordingly, the employee and his current wife were not validly married until the second ceremony in 2003.

Legal Opinion L-2004-05 concerned the effect which receipt of a pension from public employment will have on the potential spouse annuity in view of the amendments to the Social Security Act by the Social Security Protection Act of 2004.

The Railroad Retirement Act provides annuities for the spouses and divorced spouses of railroad employees who are entitled to employee annuities. The amount of spouse and divorced spouse annuities is defined as "the amount provided under section 4 of this Act." Section 4(a)(1), in turn, provides that:

> The annuity of a spouse or divorced wife of an individual [employee] under section 2(c) of this Act shall be in an amount equal to the amount (before any reduction on account of age and before any deductions on account of work) of the wife's insurance benefit or the husband's insurance benefit to which such spouse or divorced wife would have been entitled under the Social Security Act if such individual's service as an employee *** had been included in the term "employment" as defined in that Act.

The social security amendments of 1977 amended the social security provisions governing entitlement to spouse and divorced spouse benefits under the Social Security Act. As amended, the Social Security Act provides that a spouse or divorced spouse benefit must be offset by the amount of:

> any monthly periodic benefit *** which is based upon her [or his] earnings while in the service of the Federal Government or any State (or political subdivision thereof ***) if, on the last day she [or he] was employed by such entity, such service did not constitute "employment" *** [covered by the Social Security Act].

The General Counsel had previously reviewed changes made to those sections and concluded that the amendments required that the tier I component of spouse annuities must be reduced by any public pension which the spouse annuitant may receive. The amount of the offset required was later reduced from 100 percent of the public pension to two-thirds of the public pension in 1983. This is the public pension offset computation required by current regulations of the Board.

Under the law as formerly in effect, both the Railroad Retirement Board and the Social Security Administration interpreted the "last day employed" in the literal sense. Thus, where a public employee worked in a position not covered by the Social Security Act, but transferred to a position in employment subject to social security coverage prior to retirement, if that employment used the services under both the covered and noncovered employment in determining last day worked for the public pension, then both the Social Security Administration and the Board would not apply any public pension offset to a spouse benefit payable to the retired public employee.

The Social Security Protection Act of 2004 amended the Social Security Act so that, where previously the benefit reduction depended upon the status of the spouse's employment on the "last day" of employment, the law as amended now applies to the social security benefit of a spouse or survivor who has a "portion of a month" of work covered by a public pension within the 5 years preceding his or her last day of work for a public employer. Essentially, the period which determines whether the offset applies has been changed from the last day to the last 5 years. This 5-year period is now the basis for determining whether the tier I annuity component should be reduced for the public pension offset as well.

Congress ameliorated the impact of the change in three ways. First, Congress provided that the amendment take effect with benefit applications filed after the month of enactment. Any social security benefit application filed prior to April 2004 remains subject to the former law (*i.e.*, whether the spouse benefit is reduced for a public pension will be determined by reference to the employment on the last day). In the near term, Congress has further provided that the amendment "shall not apply in connection with monthly periodic benefits of any individual based on earnings while in [dual-covered social security and public] service *** if the last day of such service occurs before July 1, 2004." See section 418(c)(1) of Public Law 108-203. Thus, any public employee otherwise subject to the spouse benefit public pension offset could retire from public employment under the "last day" rule through June 30, 2004.

For those public employees who file for social security benefits after March 2004 and retire from public employment after June 2004, Congress has allowed one last exception in the form of a "transitional rule." Under the transitional rule, the 60-month period during which the spouse may not have worked in noncovered public employment may be reduced to as little as one month by the number of months the public employee worked before the enactment date of the amendment (March 2, 2004) in service which is covered under the Social Security Act and is also used to determine the last day worked under the public pension system. An important limitation on the transitional rule requires that all months of the reduced period must fall *after* the enactment date.

In conclusion, the General Counsel advised that spouse, divorced spouse, and surviving spouse and surviving divorced spouse annuities are subject to a tier I offset for a public pension under amendments to the Social Security Act, unless the railroad retirement annuity application was filed prior to April 2004 or unless the railroad retirement beneficiary left public employment under the previous last day rule before July 2004. A railroad retirement annuitant who does not meet either of the foregoing must serve 60 months in employment covered by the Social Security Act, unless the 60-month period may be reduced as described under the transitional rule.

Legal Opinion L-2004-07 addressed the issue of annulment of a marriage and the effect of the annulment on eligibility for a widow's annuity under the Railroad Retirement Act.

The General Counsel advised that the effect of a decree annulling a subsequent marriage upon an individual's status as a widow depends upon the basis of the annulment. Where a state court annuls a voidable marriage, one which potentially may be declared invalid, the individual again becomes the widow of her earlier husband for the purpose of entitlement to a widow's benefit effective with the date of the decree annulling the subsequent marriage. However, if the marriage is void as prohibited by law, the result under state law would be as if the marriage never occurred. The issue of retroactivity of payment would be governed by limitations of the reopening of a final decision on a claim as specified by the Board's regulations.

Legal Opinion L-2004-14 concerned the imposition of penalties in connection with disability work deductions where the employee has failed to report those earnings more than once.

The Board imposes a penalty deduction in the amount of one month's annuity for each month in which an annuitant has excess earnings and fails to report those excess earnings while receiving an annuity. The Railroad Retirement Act and the Board's regulations provide for an end-of-year adjustment for a disabled employee whose annuity was withheld for earnings over $400 per month. The question was raised as to whether the year-end adjustment should limit the total number of months for which the annuitant loses benefits to the number of months in the calendar year during which the excess earnings occurred: in other words, whether the end-of-year adjustment should be limited so that an annuitant would lose no more than 12 months of annuity.

In the specific case at issue, the employee-annuitant was assessed 12 penalty deduction months in addition to the 3 months of work deductions. The question for the General Counsel was whether a loss of 15 months of annuities is appropriate and whether instead the number of penalty deduction months should be limited to the number of months of annuity that have not already been lost to the work deductions within the calendar year in question. Therefore, in the case at issue, if imposition of the penalty were limited to 12 months, the employee would have been assessed 3 work deduction months and 9 penalty deduction months.

The General Counsel pointed out that the regulation does not limit the number of penalty deduction months to the months in the calendar year for which no annuity has already been lost due to excess earnings. Rather, the regulation provides that an annuitant shall lose one month's annuity as a penalty for each month in which the annuitant works and does not timely report earnings to the Board. The General Counsel stated that this procedure is consistent with the legislative history of the provision in the Railroad Retirement Act. That legislative history makes clear that the penalty deduction is not a penalty for excess earnings, but is a penalty for the failure to report such earnings to the Board in a timely manner. The initial penalty imposed for the first failure to report excess earnings is equal to only one month's annuity. A more substantial penalty is imposed only when a disability annuitant fails again to make the required report.

The General Counsel concluded that in making the year-end adjustment of disability work deductions, it is appropriate to assess a penalty deduction in the amount of one month's annuity for each month in which the annuitant had excess earnings and failed to timely report those earnings to the Board.

Appeals

Any claimant for benefits under the Railroad Retirement or Railroad Unemployment Insurance Acts may appeal a determination he or she feels is not justified. This appeal must be filed within certain time frames. Appeals are heard and decided by the Bureau of Hearings and Appeals. An appellant who is dissatisfied with the decision on his or her appeal may further appeal the case to the three-member Board within a prescribed period of time.

Railroad Retirement Act

During fiscal year 2004, 646 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Retirement Act, and the Bureau rendered decisions in 622 appeals. The initial or reconsideration decision was sustained in 231 cases. In 391 appeals the decision was favorable to the claimant in whole or in part.

Ninety-seven appeals were filed with the Board in fiscal year 2004, which, added to the 29 appeals carried over from the previous year, brought the total to be considered to 126. Of 104 decisions, 84 sustained previous rulings of the hearings officer, one was reversed, two were remanded to the Office of Programs, eight were remanded to the Bureau of Hearings and Appeals, and nine were dismissed. At the end of the year, 22 appeals were pending before the Board.

Railroad Unemployment Insurance Act

During fiscal year 2004, 69 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Unemployment Insurance Act, and the Bureau rendered decisions in 66 appeals. The initial or reconsideration decision was sustained in 46 cases. In 20 appeals the decision was favorable to the claimant in whole or in part.

Nine appeals were filed with the Board in fiscal year 2004, which, added to the two carried over from the previous year, brought the total to be considered to 11. The Board rendered decisions in nine cases of appeals from the decision of the referee, affirming the decision in six, reversing one, and remanding two to the Bureau of Hearings and Appeals. At the end of the year, two appeals were pending before the Board.

STATISTICAL TABLES

Table 1.--Beneficiaries and benefits paid under the Railroad Retirement Act and the Railroad Unemployment Insurance Act, by fiscal year, 1995-2004

Fiscal year	Total[1]	Retirement[2]	Survivor[2]	Unemployment	Sickness
BENEFICIARIES (in thousands)					
1995	879	582	282	16	21
1996	849	565	272	17	20
1997	830	549	263	15	21
1998	800	530	254	11	21
1999	777	514	246	13	22
2000	755	499	237	14	23
2001	737	483	228	18	24
2002	719	475	219	17	24
2003	699	465	211	15	23
2004	677	456	203	12	22
BENEFIT PAYMENTS (in millions)					
1995	$8,120.6	$6,042.9	$2,016.3	$35.7	$25.8
1996	8,179.1	6,089.1	2,024.4	40.7	24.9
1997	8,278.6	6,166.3	2,039.4	37.5	35.4
1998	8,305.9	6,199.0	2,047.5	25.9	33.4
1999	8,317.7	6,207.2	2,041.3	33.0	36.2
2000	8,373.3	6,254.1	2,040.3	36.4	42.4
2001	8,506.2	6,352.6	2,058.8	43.2	51.6
2002	8,742.1	6,535.9	2,107.5	49.2	49.4
2003	8,957.3	6,726.0	2,136.9	44.3	50.1
2004	9,091.3	6,876.9	2,131.3	37.7	45.3

[1] Benefit payments include a small amount of payments for hospital insurance benefits for services in Canada.

[2] Retirement benefits include vested dual benefit and supplemental annuity payments. Survivor benefits include vested dual benefit payments.

NOTE.-- Number of beneficiaries represents all individuals paid benefits in year. In total number for each year, beneficiaries are counted only once, even though they may have received more than one type of benefit. In fiscal year 2004, 9,700 individuals received both retirement and survivor benefits, 1,100 employees received both unemployment and sickness benefits, and 4,000 employees received benefits under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These figures are partly estimated, and totals for earlier years are similarly adjusted.

Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1995-2004 (In millions)

Item	Fiscal Year									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
RAILROAD RETIREMENT ACCOUNT										
Receipts										
Tax transfers[1]	$2,523.9	[2]$2,474.7	$2,518.7	$2,660.8	[3]$2,932.4	$2,928.6	$2,819.2	$2,743.1	$2,651.4	$2,611.0
Interest and profit on investments[4]	1,071.0	[5]913.0	[6]1,348.9	1,730.2	316.0	1,316.0	2,038.9	1,832.0	283.2	12.6
Transfers from the National RR Investment Trust[7]	....	....	....	....	....	....	....	....	300.0	1,564.0
Transfers from the SSEB Account[7]	....	....	....	....	....	....	....	....	....	223.0
Expenditures										
Benefit payments[8]	$2,906.1	$2,854.5	[6]$2,225.5	$2,888.3	$2,880.6	$2,925.3	$2,930.2	$3,337.8	$3,567.5	$3,636.4
Net transfers to administration	50.5	50.8	47.1	49.5	51.2	55.9	54.7	64.9	64.0	65.3
Transfers to the National RR Investment Trust[7]	....	....	....	....	....	....	....	1,431.6	17,750.0	586.0
Balance at end of period[9]	$11,926.4	$12,352.5	$13,972.3	$15,451.2	$15,768.9	$17,032.9	$18,907.2	[10]$18,640.4	[11]$502.2	$625.6
SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNT[12]										
Receipts										
Tax transfers[1]	$1,924.3	[2]$1,918.3	$2,046.5	$2,208.7	[3]$2,000.1	$2,208.5	$2,134.0	$2,134.7	$2,128.0	$2,240.8
Interest and profit on investments[4]	75.2	[5]123.3	[6](116.2)	90.7	91.5	101.7	93.8	115.4	67.8	22.5
Transfers under financial interchange[13]	4,120.1	3,556.3	3,747.2	3,819.1	3,816.0	3,697.6	3,282.8	3,646.8	3,747.3	3,843.5
Advances against financial interchange[14]	3,077.9	3,150.1	3,183.9	3,145.1	2,992.3	3,005.1	3,145.2	3,153.9	3,236.1	3,245.7
Expenditures										
Benefit payments[8]	$4,811.3	$4,939.4	[6]$5,681.4	$5,078.8	$5,104.5	$5,124.8	$5,256.5	$5,146.7	$5,166.0	$5,254.6
Net transfers to administration	26.7	23.3	25.3	26.2	25.2	27.1	25.0	26.1	22.8	22.9
Transfers under financial interchange[13]	396.1	401.3	419.1	419.4	429.9	465.3	469.7	424.7	426.3	418.6
Repayment of advances against financial interchange[15]	3,250.5	3,329.5	3,399.0	3,430.0	3,370.8	3,190.1	3,222.2	3,385.3	3,342.4	3,409.9
Transfers to the National RR Investment Trust/RR Account[7]	....	....	....	....	....	....	....	....	1,438.0	223.0
Balance at end of period[9]	$2,265.0	$2,319.4	$1,656.1	$1,965.2	$1,934.7	$2,140.3	$1,822.7	$1,890.9	$674.6	$698.2

See footnotes at end of table.

Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1995-2004 (In millions)--Continued

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Fiscal Year									
NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST[16]										
Cash and investment balance at end of period[17]……	……..	……..	……..	……..	……..	……..	……..	$1,420.7	$23,016.5	$25,019.7
RAILROAD RETIREMENT SUPPLEMENTAL ACCOUNT[18]										
Receipts										
Tax transfers[1]……	$77.0	[2]$68.3	$103.6	$118.1	$90.4	$76.7	$67.8	$23.5	……..	……..
Interest and profit on investments[4]……	1.1	[5](20.5)	(0.9)	0.7	2.5	3.5	3.1	2.9	……..	……..
Expenditures										
Benefit payments[8]……	$90.3	$86.2	$82.4	$78.6	$75.1	$72.9	$68.8	$16.8	……..	……..
Net transfers to administration……	2.3	2.2	2.2	2.0	2.1	2.3	2.0	0.7	……..	……..
Transfers to the National RR Investment Trust[7]……	……..	……..	……..	……..	……..	……..	……..	70.4	……..	……..
Balance at end of period[9]……	$27.6	$41.2	$35.3	$41.0	$56.8	$61.7	$61.7	[10]……..	……..	……..
DUAL BENEFITS PAYMENTS ACCOUNT[19]										
Dual benefit transfers[20]……	$254.0	$239.0	$223.0	$205.5	$189.0	$173.3	$160.0	$146.0	$131.1	$118.3
Benefit payments……	251.5	233.4	216.4	200.9	188.4	171.4	156.0	142.2	129.4	117.3
Balance at end of period[9]……	$2.5	$5.3	$6.6	$4.6	$0.6	$1.9	$4.0	$3.9	$1.8	$1.0

See footnotes at end of table.

Footnotes - Table 2

[1] Net of U.S. Treasury adjustments for payroll tax refunds to certain carriers and their employees for prior periods. Includes Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.

[2] Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -$13.4 million, Social Security Equivalent Benefit Account -$14.5 million, and Railroad Retirement Supplemental Account +$27.9 million.

[3] Reflects transfer of $83.1 million from the Social Security Equivalent Benefit Account to the Railroad Retirement Account for reallocation of fiscal year 1998 payroll taxes. Railroad Retirement Account also reflects special Treasury income tax adjustment of $146 million for calendar years 1988-1994.

[4] Net of interest on U.S. Treasury adjustments for payroll tax refunds (see note 1). Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in interest for benefit payment adjustments related to the financial interchange (see note 8).

[5] Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -$11.0 million, Social Security Equivalent Benefit Account -$10.8 million, and Railroad Retirement Supplemental Account +$21.8 million.

[6] Reflects adjustment in benefit payments (Railroad Retirement Account -$676.8 million, Social Security Equivalent Benefit Account +$676.8 million) charged to the Social Security Equivalent Benefit Account for October 1984 - December 1995, as compared to actual financial interchange benefits, with interest (Railroad Retirement Account +$241.6 million, Social Security Equivalent Benefit Account -$241.6 million) through August 1, 1997.

[7] Under the Railroad Retirement and Survivors' Improvement Act of 2001, as amended, the portion of the Railroad Retirement Account not needed to pay current administrative expenses is to be transferred to the National Railroad Retirement Investment Trust (Trust). The Trust may transfer funds back to the Railroad Retirement Account for payment of benefits. The balance of the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses is to be transferred to the Trust or to the Railroad Retirement Account. The SSEB Account transferred funds to the Trust in fiscal year 2003 and to the Railroad Retirement Account in fiscal year 2004.

[8] Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in benefit payments charged to the Social Security Equivalent Benefit Account as compared to actual financial interchange benefits. Effective January 1, 2002, supplemental benefits are paid from the Railroad Retirement Account.

[9] Through fiscal year 1995, all Account balances include liabilities for uncashed check credits received from U.S. Treasury. Beginning in fiscal year 1996, only the Railroad Retirement Account balance reflects these credits. The Railroad Retirement Account balance also reflects (a) the current net difference between Board payments of social security benefits and the receipt of reimbursements for such payments, (b) credits for undistributed payment returns and recoveries, and (c) loans to and repayments from the Railroad Unemployment Insurance or the Railroad Retirement Supplemental Accounts. Beginning fiscal year 1996, the Railroad Retirement Supplemental Account balance reflects loans from and repayments (including interest) to the Railroad Retirement Account. The Dual Benefits Payments Account balance does not carry over to the following year.

[10] Reflects transfer of $124,000 from the Railroad Retirement Supplemental Account to the Railroad Retirement Account. The Railroad Retirement Account balance also reflects a loan of $7.8 million to the Railroad Unemployment Insurance Account.

[11] Reflects payment during the year of the entire debt balance from the Railroad Unemployment Insurance Account, $7.8 million in principal and $0.4 million in interest.

[12] Established October 1, 1984, to keep track of the financing and payment of social security level portions of railroad retirement benefits.

[13] Transfers to or from OASDHI Trust Funds under section 7(c)(2) of the 1974 Railroad Retirement Act.

[14] Advances, including interest, from U.S. Treasury to offset lag in receipt of financial interchange funds under section 7(c)(4) of the 1974 Railroad Retirement Act as amended.

[15] Includes interest.

[16] Established February 1, 2002, for investment of railroad retirement assets.

[17] Source: National Railroad Retirement Investment Trust.

[18] Under the Railroad Retirement and Survivors' Improvement Act of 2001, the supplemental work-hour tax was repealed for years after 2001, and the separate Railroad Retirement Supplemental Account was eliminated.

[19] Established October 1, 1981, to keep track of the financing and payment of vested dual benefits.

[20] Transfers from U.S. Treasury under section 15(d) of the Railroad Retirement Act of 1974 and Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.

Table 3.--Status of the Railroad Unemployment Insurance Account, by fiscal year, 2000-2004 (In thousands)

Item	Fiscal year				
	2000	2001	2002	2003	2004
RECEIPTS					
Taxes……………………………………………………	$47,977	$30,575	$75,696	$122,638	$109,191
Interest………………………………………………	7,332	4,204	1,582	3,444	5,148
Transfer from Administration fund under sec. 11 (d) of the RUI Act……………………	6,546	6,048	6,734	5,645	6,608
Undistributed recoveries of benefit payments[1]……	170	865	(900)	788	(1,037)
Loan from the RR Account…………………………	....	....	7,800	....	....
Total…………………………………………………	$62,025	$41,692	$90,912	$132,515	$119,910
EXPENDITURES					
Benefit payments…………………………………………	$78,759	$94,823	$98,580	$94,389	$82,975
Repayment of RRA Loan……………………………	....	....	....	8,181	....
Funding for Office of Inspector General…………	1,209	1,233	1,372	1,392	1,318
Total…………………………………………………	$79,967	$96,057	$99,953	$103,962	$84,293
Cash balance end of period…………………………	$82,773	$28,409	$19,368	$47,921	$83,537
LOANS DUE RAILROAD RETIREMENT ACCOUNT					
Loans……………………………………………………	....	....	$7,800	....	....
Interest accrued……………………………………	....	....	208	$173	....
Repayment from RUI Account………………………	....	....	-----	8,181	....
Due RR Account end of period………………………	....	....	$8,008	....	....

[1] Net of distributed payments.

Table 4.--Status of the RUIA Administration Fund, by fiscal year, 1995-2004 (In thousands)

Fiscal year	Taxes and interest	Administrative expenditures[1]	Transfer to Railroad Unemployment Insurance Account under Sec. 11d[2]	Balance at end of period
1995	[3] $17,597	$16,462	$538	$4,634
1996	17,373	16,497	689	4,821
1997	16,891	16,136	694	4,883
1998	19,081	13,123	2,993	7,849
1999	20,235	13,188	5,814	9,081
2000	19,941	14,847	6,546	7,629
2001	20,434	14,004	6,048	8,011
2002	20,032	13,266	6,734	8,043
2003	21,313	15,407	5,645	8,304
2004	20,787	15,846	6,608	6,637

[1] Expenditures for each year included encumbrances as of end of year.

[2] Transfers to the Railroad Unemployment Insurance Account are based on the amount the accrual balance on the prior September 30 exceeded $6,000,000.

[3] The cash balance at the beginning of fiscal year 1995 was increased $72,000 to $4,037,000 and fiscal year 1995 interest was decreased $72,000 due to a fiscal year 1994 audit adjustment.

Table 5.--Number and average amount of retirement and survivor annuities in current-payment status at end of year, by type of annuitant and fiscal year, 1995-2004

Fiscal year	Total [1]	Retired employees: Age	Retired employees: Disability	Retired employees: Supple-mental	Spouses and divorced spouses	Aged widow(er)s [2]	Disabled widow(er)s	Widowed mothers (fathers) [2]	Children	Remarried widow(er)s	Divorced widow(er)s [2]
NUMBER AT END OF YEAR											
1995	967,175	274,603	78,566	168,231	195,082	212,639	6,525	1,617	15,302	6,071	8,457
1996	936,428	265,030	78,647	161,806	188,281	204,969	6,371	1,525	14,960	6,066	8,690
1997	906,741	255,664	79,063	155,721	181,399	197,447	6,202	1,462	14,665	6,064	8,976
1998	875,905	245,900	79,017	149,260	174,467	190,222	6,031	1,427	14,347	6,045	9,116
1999	846,687	236,741	79,617	143,515	167,478	182,839	5,893	1,327	13,964	5,967	9,280
2000	819,327	228,439	80,158	138,158	161,283	175,464	5,679	1,245	13,561	5,886	9,392
2001	790,711	219,646	80,574	132,799	154,710	167,840	5,460	1,165	13,233	5,733	9,490
2002	775,638	216,044	81,653	132,066	151,006	160,490	5,236	1,114	12,804	5,619	9,545
2003	756,176	210,363	82,572	129,201	146,740	153,673	5,105	1,035	12,472	5,421	9,541
2004	736,787	204,650	83,302	125,992	142,881	146,943	4,936	1,050	12,176	5,256	9,550
AVERAGE AMOUNT											
1995	....	$1,133	$1,171	$44	$456	$680	$607	$844	$589	$463	$487
1996	....	1,175	1,228	43	471	708	628	882	608	484	505
1997	....	1,223	1,291	43	487	740	650	916	627	507	526
1998	....	1,264	1,346	43	502	768	672	957	646	531	546
1999	....	1,300	1,398	43	514	792	687	991	659	548	559
2000	....	1,351	1,465	42	530	826	711	1,029	678	571	579
2001	....	1,414	1,548	42	550	870	746	1,076	706	603	606
2002	....	1,496	1,624	42	579	948	799	1,228	728	627	633
2003	....	1,554	1,683	42	598	985	831	1,279	744	647	649
2004	....	1,619	1,751	42	620	1,026	865	1,337	766	673	674

[1] Includes annuities to parents. On September 30, 2004, there were 51 parents' annuities in current-payment status averaging $707.
[2] Numbers include annuities temporarily being paid at spouse annuity rates, pending final adjudication of survivor annuities.

NOTE.--Data exclude survivor (option) annuities. On September 30, 2004, there was one survivor (option) annuity of $76 in current-payment status.

Table 6.--Number and average amount of retirement and survivor annuities awarded during year, by type of annuitant and fiscal year, 1995-2004

Fiscal year	Total [1]	Retired employees: Age	Retired employees: Disability	Retired employees: Supple-mental	Spouses and divorced spouses	Aged widow(er)s	Disabled widow(er)s	Widowed mothers (fathers)	Children	Remarried widow(er)s	Divorced widow(er)s
NUMBER AWARDED											
1995	42,072	7,962	5,094	4,715	10,407	11,021	297	222	1,074	419	853
1996	38,635	7,415	4,878	4,414	9,576	9,979	233	204	825	365	737
1997	38,293	7,422	4,872	4,494	9,175	9,868	240	222	855	381	757
1998	36,508	6,756	4,620	4,399	8,739	9,566	248	236	851	360	727
1999	36,205	6,846	5,140	4,496	8,157	9,317	246	199	719	324	759
2000	35,818	7,186	4,709	4,749	8,316	8,699	204	159	714	336	744
2001	33,289	6,285	4,630	4,339	7,648	8,372	217	157	611	307	719
2002	44,485	11,127	5,206	8,337	9,764	8,104	199	161	590	273	716
2003	37,841	8,261	4,955	6,124	8,749	7,800	244	162	645	216	684
2004	36,083	7,801	4,764	5,590	8,579	7,320	218	186	660	258	702
Cumulative 1937-2004	4,785,617	1,406,657	492,064	442,846	1,094,354	977,816	16,970	84,098	233,607	14,058	19,634
AVERAGE AMOUNT											
1995	....	$1,346	$1,504	$41	$482	$820	$737	$927	$713	$541	$537
1996	....	1,435	1,527	41	505	858	770	955	741	594	564
1997	....	1,506	1,593	41	521	888	782	868	760	607	564
1998	....	1,579	1,649	41	545	920	810	908	805	642	599
1999	....	1,654	1,751	41	567	945	825	993	831	658	615
2000	....	1,745	1,871	41	584	998	901	1,049	858	670	613
2001	....	1,842	1,971	41	613	1,044	927	996	932	701	654
2002	....	2,243	2,051	42	697	1,286	1,148	1,319	961	697	705
2003	....	2,201	2,092	41	733	1,346	1,262	1,384	953	775	743
2004	....	2,247	2,168	41	744	1,378	1,257	1,550	998	816	777

[1] Includes annuities to parents. Fiscal year 2004 total includes 5 annuities to parents averaging $725. Cumulative total includes 3,513 annuities to parents.

NOTE.--Cumulative figures reflect adjustments not made in yearly data, but average amounts for each year include effects of changes in rates made by the end of the year.

Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2004, by class and state (Amounts in thousands)

State[1]	Total		Retirement benefits[2]		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Alabama	12,000	$12,557	8,800	$9,530	3,100	$3,027
Alaska	200	203	200	156	100	48
Arizona	13,300	13,049	10,300	10,171	3,000	2,878
Arkansas	11,600	12,685	9,100	10,237	2,500	2,448
California	41,400	40,096	31,200	30,612	10,200	9,484
Colorado	9,800	10,239	7,400	7,866	2,400	2,373
Connecticut	3,800	3,846	2,700	2,885	1,000	961
Delaware	2,200	2,376	1,600	1,767	600	609
Washington DC	800	578	500	413	200	164
Florida	40,200	40,168	31,400	31,945	8,800	8,222
Georgia	19,200	20,239	14,600	15,840	4,600	4,399
Hawaii	300	212	300	163	100	49
Idaho	6,000	6,183	4,700	4,889	1,300	1,295
Illinois	47,300	46,805	36,400	36,145	11,000	10,660
Indiana	21,100	21,809	16,100	16,766	5,100	5,042
Iowa	12,000	11,897	9,100	9,019	2,900	2,878
Kansas	18,100	18,927	14,200	14,994	3,900	3,932
Kentucky	18,900	19,845	14,500	15,464	4,400	4,380
Louisiana	10,200	10,562	7,600	7,996	2,600	2,566
Maine	4,000	4,050	3,000	3,022	1,000	1,027
Maryland	12,600	12,771	9,300	9,503	3,300	3,267
Massachusetts	6,200	5,703	4,500	4,125	1,700	1,578
Michigan	19,300	19,443	15,000	15,202	4,300	4,241
Minnesota	21,200	20,899	16,300	16,032	5,000	4,867
Mississippi	8,000	8,209	6,100	6,405	1,900	1,804
Missouri	25,000	24,957	19,100	19,306	5,900	5,651
Montana	7,800	8,196	6,100	6,398	1,700	1,797
Nebraska	13,900	14,928	11,000	11,876	2,900	3,052
Nevada	4,600	4,640	3,600	3,715	1,000	925
New Hampshire	1,200	1,101	900	792	300	309
New Jersey	12,500	12,556	9,000	9,179	3,500	3,376
New Mexico	6,200	6,111	4,700	4,697	1,500	1,414
New York	30,200	30,721	22,100	23,264	8,200	7,456
North Carolina	13,100	13,444	9,900	10,375	3,300	3,069
North Dakota	4,200	4,436	3,200	3,410	1,000	1,026

See footnotes at end of table.

Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2004, by class and state (Amounts in thousands)--Continued

State[1]	Total		Retirement benefits[2]		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Ohio	38,900	$39,079	29,100	$29,181	9,800	$9,898
Oklahoma	6,600	6,790	5,000	5,219	1,600	1,571
Oregon	11,300	11,536	8,700	9,009	2,600	2,527
Pennsylvania	51,700	52,515	37,000	37,761	14,700	14,754
Rhode Island	800	730	600	528	200	202
South Carolina	8,100	8,573	6,100	6,646	2,000	1,928
South Dakota	1,700	1,574	1,300	1,196	400	378
Tennessee	15,300	15,745	11,400	12,004	3,900	3,742
Texas	42,000	43,586	31,800	33,401	10,200	10,185
Utah	7,200	7,485	5,500	5,648	1,800	1,836
Vermont	1,200	1,098	900	772	300	325
Virginia	23,000	24,071	17,100	18,402	5,800	5,670
Washington	15,000	15,250	11,700	11,891	3,300	3,360
West Virginia	12,700	13,164	9,400	9,744	3,300	3,419
Wisconsin	14,000	13,532	10,800	10,352	3,200	3,180
Wyoming	3,900	4,247	3,100	3,380	800	867
Outside United States:						
Canada	3,600	2,163	2,300	1,210	1,200	953
Mexico	400	299	200	142	200	158
Other	900	713	500	398	400	315
Total	736,800	$746,587	556,800	$571,046	180,000	$175,541

[1] State of residence of beneficiary on September 30, 2004.

[2] Includes 126,000 supplemental annuities to employees receiving regular annuities. In a relatively small number of cases, employees were also receiving spouse or widow(er)'s benefits.

NOTE.--Retirement benefits include regular and supplemental employee annuities, spouse annuities and divorced spouse annuities. Survivor benefits include annuities to aged and disabled widow(er)s, widowed mothers and fathers, remarried and divorced widow(er)s, children, parents, survivor (option) annuities, and widow(er)s annuities temporarily being paid at spouse annuity rates pending final adjudication of survivor annuities. Benefit amounts exclude social security payments to dual beneficiaries.

Table 8.-- Principal administrative data for the unemployment and sickness benefit programs, benefit years 1999-2000 through 2003-2004

Item	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Qualified employees	278,200	277,400	269,900	259,100	248,800
Maximum daily benefit rate	$46	$48	$50	$52	$55
UNEMPLOYMENT BENEFITS					
Net amount of benefits paid (thousands)	$35,620	$43,008	$47,383	$45,614	$38,264
Payments:[1]					
Number	83,300	96,100	103,600	96,700	76,400
Average amount per two week claim period	$399	$415	$429	$449	$477
Beneficiaries	13,700	16,700	17,800	15,400	11,700
Applications received	17,500	20,100	22,000	18,300	14,400
Claims received	101,400	118,800	128,500	116,400	91,700
Normal benefit accounts exhausted	2,100	2,200	2,700	2,900	2,400
Non-compensable waiting period only[2]	(3)	(3)	(3)	(3)	(3)
SICKNESS BENEFITS					
Net amount of benefits paid (thousands)	$40,499	$49,512	$50,904	$49,891	$46,413
Payments:[1]					
Number	151,300	163,200	168,400	160,700	152,700
Average amount per two week claim period	$406	$426	$445	$461	$486
Beneficiaries	22,000	23,000	23,000	22,400	21,600
Applications received	27,100	28,700	28,100	27,900	26,600
Claims received	175,900	189,000	194,000	185,700	176,800
Normal benefit accounts exhausted	4,100	4,500	5,100	4,700	4,500
Non-compensable waiting period only[2]	100	100	100	100	200

[1] Not adjusted for recoveries or settlements of underpayments.
[2] Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year.
[3] Less than 50.

NOTE.--Data covered program activities during the year, regardless of when unemployment or sickness occurred.

Table 9.--All employees, new entrants, employees qualified for RUIA benefits, and related data, by employer, 2003

Class or name of employer	All employees				New entrants		Creditable Compensation (thousands)		
	Total	With 12 months of service in 2003	With sufficient service for RRA annuity	Qualified for RUIA benefits	Total	Qualified for RUIA benefits	Tier I	Tier II	RUIA
CLASS OF EMPLOYER									
Class I railroads	198,560	160,942	164,706	190,398	8,897	5,353	$10,317,698	$9,614,250	$2,438,097
Class II railroads	8,363	6,410	6,391	7,676	492	264	363,221	347,891	96,704
Class III railroads	35,519	28,390	24,843	33,194	2,411	1,357	1,837,019	1,680,166	424,003
Switching and terminal companies	5,375	4,003	3,846	4,806	442	187	232,535	221,686	60,555
Car-loan companies	1,932	1,558	1,592	1,815	123	44	88,218	83,827	23,230
Miscellaneous employers[1]	4,976	3,805	3,318	4,332	427	189	261,102	224,959	55,159
Total	254,725	205,108	204,696	242,221	12,792	7,394	$13,099,794	$12,172,779	$3,097,748
SELECTED EMPLOYERS									
Burlington Northern and Santa Fe Ry. Co.	42,145	34,743	37,057	40,824	1,670	1,138	$2,298,306	$2,115,562	$522,514
Canadian National, U.S. Operations									
Chicago Central and Pacific Railroad Co.	284	232	230	280	5	3	15,609	13,844	3,576
Duluth, Winnipeg and Pacific Railway Co.	194	154	169	190	3	2	12,254	10,547	2,409
Grand Trunk Western Railroad Incorporated	1,788	1,382	1,567	1,708	56	39	96,439	89,491	21,676
Illinois Central Railroad Company	3,453	2,781	2,490	3,310	183	119	202,750	179,706	42,568
Sault Ste. Marie Bridge Company	50	39	50	47	.....	.....	2,547	2,391	602
Wisconsin Central LTD.	1,719	1,358	1,544	1,674	28	24	98,692	88,340	21,138
CSX Transportation Incorporated	36,094	29,309	28,263	35,058	1,475	1,218	1,831,601	1,741,358	447,058
Kansas City Southern Railway Company	2,768	2,149	2,049	2,603	225	116	137,759	131,223	33,358
IC & E - Kansas City Southern Joint Agency	144	115	113	139	6	4	7,016	6,782	1,753
National Railroad Passenger Corp. (Amtrak)	22,407	17,718	18,200	21,510	734	352	1,005,986	966,056	272,544
Norfolk Southern Corporation	31,191	24,848	25,791	29,863	2,029	1,323	1,572,105	1,481,830	381,739
Soo Line Railroad Company	3,117	2,425	2,579	2,953	254	145	149,970	141,864	37,524
Union Pacific Railroad Company	53,206	43,689	44,604	50,239	2,229	870	2,886,664	2,645,257	649,638

[1] Includes labor organizations, lessor companies, employer associations and miscellaneous carrier affiliates.

NOTE.--Tier I compensation excludes miscellaneous compensation taxable at the tier I tax rate.